Cambridge & Counties Bank
Built on understanding

Annual report & financial statements 2021

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Strategic Report

Summary of Key Performance Metrics

Pre-tax profit
£18.5m
2020: £11.2m

Total equity
£164m
2020: £150m

Customer deposit balances
£1,026m
2020: £917m

Gross lending balances
£993m
2020: £841m

Net interest margin
3.8%
2020: 3.7%

Gross new lending
£323m
2020: £220m

Total capital ratio
23.0%
2020: 24.3%

Cost of risk
38bps
2020: 72bps

Impairment coverage
1.5%
2020: 1.5%

Common equity tier 1 capital ratio
19.9%
2020: 20.7%

Cost to income ratio
51.0%
2020: 55.6%

ROCE ratio
9.5%
2020: 6.4%

Liquidity coverage ratio
287%
2020: 419%

Customer deposits broke through the £1bn mark

Chairman's statement

Overview

At Cambridge & Counties Bank we started 2021 determined to support our customers in their ambitions to trade through the pandemic while at the same time taking advantage of opportunities that were going to emerge. Having the expertise and resources to give our existing customers time to come through the impacts of Covid has borne fruit as we have transitioned our customers out from forbearance and back to financial health. At the same time, we have seen new business volumes in both our real estate and asset finance teams return to meaningful growth with customer advances up 18% year on year. It has been pleasing to note that this growth has not been at the expense of quality with new customers showing improved credit fundamentals. The board was pleased to note that customer deposits broke through the £1 billion mark and that overall cost of the funding reduced as we took a more dynamic approach to pricing while enjoying access to diversified pools of customers.

This growth was achieved while we continued to invest in our systems, processes and people to provide a platform for sustainable growth. Management expenses grew at 8% compared to income growth at 18% and along with reduced impairment resulted in a pre-tax profit of £18.5m (up 66% on last year).

This has been achieved in what we would all recognise as challenging circumstances for customers and colleagues, and the Board would like me to convey their thanks to them for what we regard as a strong set of results.

Capital

It is pleasing to note that we continue to generate high-quality capital, being able to resource the growth in the year alongside our investment in people and processes. The Bank delivered Common Equity Tier 1 (including IFRS9 transitional relief) of 19.9% with total capital at 23.0% at the year end.

Dividends

In line with our shareholders' desire to support the organic growth plans of the Bank, no dividend is proposed.

The Board

The evolution of the board continued as planned in 2020, with the retirement of both Ian Smith and Paul ffolkes Davis after 9 years' service to the Bank. Ian had chaired our Audit Committee and had been the Senior Independent Director before stepping down. His wise counsel and deep understanding of the business was held in high esteem by the entire Board and the Executive. Paul had previously been Chair of the Bank as well as leading the Nominations and Governance committee before his departure. As a "founding father" his passion for the organisation always shone through, as well as his support for maintaining the culture of the Bank, of which he was a strong advocate.

The new members of the Board are Patrick Newberry and Tim Harvey-Samuel. Patrick's executive career spanned over 30 years with PwC, where his primary focus was on strategy, performance improvement as well as all things regulatory within the financial services sector. Patrick has taken on the Chair of Audit Committee. Tim has extensive banking experience, mainly at Schroders and Citigroup, where he led the Equity Capital Markets Group for Europe, Middle East and Africa. Tim is now Bursar of Trinity Hall, having served in a similar capacity at Corpus Christi. I'm delighted to welcome both Patrick and Tim to the Board and am confident they will greatly contribute to the future success of the Bank. Finally, Caroline Fawcett stepped into the role of Senior Independent Director, and, amongst other duties, is leading the search for my replacement as I come to the end of my tenure as Chair.

Outlook

The current conflict in the Ukraine and rapidly escalating events in late February and early March 2022 is causing significant disruption to businesses and will continue to impact economic activity worldwide. UK inflation is already at its highest level in a decade, and the surge in energy prices will exacerbate this further, threatening the pace of economic recovery, and the markets in which the Bank operates. We remain alive to these downside risks, including from further Covid 19 outbreaks, the challenge of climate change, and more locally the impact of fresh competition.

However, the UK economy is in better shape than many of us hoped it would be this time last year. The Board has confidence that the strategy of the Bank – focusing on core markets; using our key skills of credit underwriting every customer; investing in the customer experience; building a great team while at the same time continuing to face into the opportunities that the ESG agenda offers – is a deliverable route to sustainable growth for all stakeholders.

As I highlighted above this will be my last Report and Accounts as Chairman with the search for my successor underway already. It has been a privilege to have been a member of the board since 2012, and Chairman since 2016, witnessing first-hand how my colleagues have risen to the many opportunities and challenges that have come our way and I have every confidence that the Bank will continue to prosper. I would like to take this opportunity to thank all members of the Board and all members of the Bank's team, past and present, for their support, friendship, professionalism, and brilliant partnership over the last ten years. I look forward to seeing Cambridge & Counties Bank continue to grow and thrive under its new leadership.

Simon A. Moore

Simon Moore
Chairman

12 April 2022

Chief Executive Officer's Review

Overview

In my first full year as the Bank's CEO, my focus has been on supporting our customers through the financial impacts of the pandemic, while ensuring the well-being of our colleagues. Concurrently the management team evolved the Bank's strategy to reflect the continued opportunities in our chosen segments, building on our core foundation of a people-led approach while at the same time modernising and simplifying the business.

This framework encapsulates our commitment to deliver disciplined growth and sustaining the business for the long term. The early signs are encouraging: We have returned the business to strong double-digit growth both in balance sheet and income terms; successfully managed all customers through Covid forbearance, while at the same time managing the risks in our business prudently.

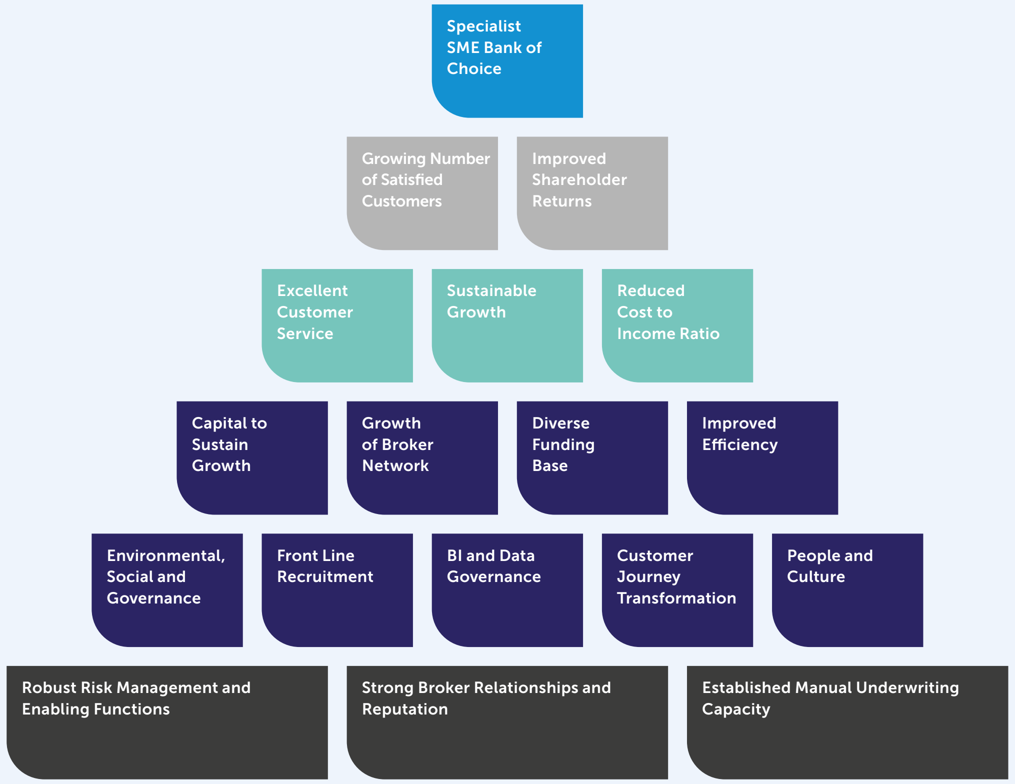
Strong performance against a difficult economic backdrop

The Bank has navigated the Covid 19 crisis well, and this is testament to the team's commitment during this challenging period, maintaining the passion and engagement of our people, and delivering continued support for customers and brokers.

Our strategy has continued to deliver improved financial momentum throughout the year. Underlying performance for 2021 was strong. Profit before tax increased 66% to £18.5m (2020: £11.2m) delivering a return on shareholder equity of 9.5% (2020: 6.4%).

The year presented continued challenge from an interest income perspective as a result of the continued low interest rate environment. Despite this, the Bank maintained a healthy net interest margin (NIM) of 3.8% (2020: 3.7%) with the growth in net income of 18% to £44.9m reflecting the return to growth in gross customer assets of 18% to £992m as the Bank played its part in funding SME lending activity unlocked by the economic recovery.

The Bank's liability portfolio benefited from relatively stable market pricing in 2021 due to the significant liquidity in the system. We were able to safely reduce the deliberate liquidity headroom retained to mitigate Brexit, the pandemic, and recessionary risks. The Bank's liquidity position remains robust with a 287% liquidity coverage ratio (LCR) (2020: 419%), a diversified product and customer base, and multiple deposit acquisition channels including direct, online, and intermediary brokers. With the Bank in its 10th year, Cambridge & Counties Bank is an established brand and continues



The Bank is focused on becoming the "Specialist SME Bank of Choice". To achieve this the Bank has set itself a number of goals building on its core foundations.

to attract steady inflows into notice accounts and fixed rate bond products, and maintains a prudently funded loan to deposit ratio (LDR) of 95% (2020: 91%)

The Bank's improved cost income ratio of 51.0% (2020: 55.6%) reflects good cost control in year while continuing to invest in key skills and capabilities in IT and infrastructure.

We have not yet experienced any meaningful crystallisation of credit losses as a result of Covid-19. Until the full downstream impacts of the pandemic are understood, we continue to adopt a cautious and conservative outlook, reflected in our balance sheet impairment provision coverage ratio of 1.5% (2020 1.5%), and have not taken any material provision release in year. The Bank's loan impairment charge reduced from £5.8m in 2020 to £3.5m in 2021 and this combined with the growth in loan balances results in reduction in the cost of risk from 72bps in 2020 to 38bps.

The Bank delivered a strong performance in 2021 but this was still significantly impacted by the Covid 19 pandemic and the adverse economic environment. It is important that we play our part in supporting the economic recovery through lending to customers and the investment in our front-line relationship management teams, infrastructure development in simplifying and automating our end-to-end lending processes, and additional recruitment activity underway is well placed to deliver on that.

Since the previous credit crisis in 2008/9 the UK banking sector has more than tripled its capital capacity across the sector including buffers designed to absorb the 'capital shock' of any potential credit losses that could emerge in an economic downturn. The Bank's capital capacity has never been stronger at £164m with the sustainable retained earnings contributing 59% of the Bank's capital base. The Bank closed the year with a total capital ratio of 23.0% (2020: 24.3%) and a CET1 ratio of 19.9% (2020: 20.7%).

We remain liquid, well capitalised, and well positioned for the year ahead

Strategy

Despite the challenges the pandemic has posed for our customers, communities and people, the Bank continues to offer a competitive and customer focused range of straight-forward finance products. The Board's strategy is one of sustainable organic growth in our existing markets without material uplift in risk. Our strategic objectives are:

- to develop our lending products to meet climate change challenges and help support our customers ensure their properties are energy efficient;
- to continue to invest in our customer contact strategy and geographical footprint to maintain our high customer service and satisfaction levels, and access underserved markets; and
- use proven technology to support our colleagues' interactions with brokers and customers.

The investment made in support functions over the last 2-3 years has resulted in a solid and stable platform upon which to grow the Bank to the next level.

The Bank's "people led – technology enabled" strategy has not changed, and our priority continues to focus on providing excellent customer support and service levels across our market relevant proposition. Through targeted investment in front line systems and processes, we expect to be able to drive efficiencies and improved service levels enabling revenue growth to exceed cost growth. This will not only improve cost efficiency in the short to medium term, but also ensure that the Bank is well placed to continue to grow in an increasingly competitive environment over a longer time horizon..

Supporting our customers and our people

Doing the right thing has always been at the core of the Bank's culture and how we operate, and this year's performance reflects that alignment of the Bank's strategic aspirations, with our social and environmental contribution evidenced across the ESG agenda.

> Our people have been pivotal to the success of 2021, embracing new ways of working and finding a positive operating rhythm.

The Bank's relationship model has been fundamental in supporting our customers and proving a dependable lender, providing a human interface to help navigate the pandemic challenges. The Bank has stayed true to its commitment to put our customers and brokers at the centre of our purpose, and this is reflected in our 95% customer satisfaction measure and growth in new business volumes. We were delighted that Cambridge & Counties Bank were again nominated by our broker community in the NACFB 2021 Awards, and we value the strength of the broker community support.

Our people have been pivotal to the success of 2021, embracing the new ways of working and finding a positive operating rhythm despite the challenging backdrop. We maintained market leading engagement scores through the pandemic reflecting the commitment of our colleagues and the management team. These results would not have been possible without the incredible efforts of every team in the Bank, and I would like to place my deep gratitude to them all on record.

Outlook

The Bank remains well capitalised, with strong liquidity and an asset backed lending portfolio. Our credit loss provision provides a robust level of coverage across our loan portfolio, enabling the Bank to face into the continuing challenging economic environment from a position of strength.

Whilst the Bank's primary purpose is serving UK businesses, the impact of the current conflict in the Ukraine, increases in global energy prices, and inflationary spiral will impact the UK economy and the markets in which we operate. The higher corporate leverage and Government deficits could mean tighter fiscal policy over the medium term following the significant stimulus that accompanied the onset of Covid 19. Our conservatism in provisions and loss absorbing capacity will continue to be assessed as part of the Bank's regular stress testing exercises. Expected interest rate rises could add upside to our income growth rate outlook. Over the medium term as the coronavirus is likely to become less virulent, and the risk of entrenched high inflation is mitigated through stabilisation of energy markets, we look forward to the resolution of the Ukrainian conflict.

The pandemic has accelerated the pace of digitalisation and further investment will be key to boost UK productivity growth, mitigating concerns of a double dip recession. We are investing in straight through processing and accelerating digital capabilities; our development in credit risk and credit grading models enables us to embed our USP in manual underwriting in risk assessment and pricing.

The Bank remains in great shape and with strong growth prospects. We are confident we can deliver our strategy, building on the investment we have made over the past couple of years and the momentum we have coming into 2022. Whilst significant uncertainty persists, we also see significant opportunities emerging. We have the right strategy, business model, people and ambition to deliver on this potential.

Donald Kerr
Chief Executive Officer

12 April 2022

Our Purpose and Business Model

Purpose statement

Cambridge & Counties Bank is a UK Bank that specialises in providing lending and deposit products for Small and Medium Enterprises (SMEs).

Ownership

Established in June 2012, Cambridge & Counties Bank has a stable and supportive ownership structure being jointly owned by Trinity Hall, a college of the University of Cambridge, and Cambridgeshire County Council as Administering Authority of the Cambridgeshire Local Government Pension Fund.

The Bank is authorised by the Prudential Regulation Authority, regulated by the Financial Conduct Authority and the Prudential Regulation Authority, and is registered under the Financial Services Compensation Scheme.

We have a simple and proven Business Model

Distribution network

Cambridge & Counties Bank provides lending products through a network of relationship managers who deal via business introducers as well as directly with customers. We seek to be straight forward and easy to deal with in our interactions with introducers and deliver a banking experience that attracts and retains customers. The Bank delivers a range of savings accounts via the internet, post, and savings intermediaries.

Lending

The Bank's commercial real estate loans are secured on property. We lend to experienced commercial and residential property investors as well as to owner occupied businesses to invest in their own commercial premises.

The Bank provides finance for businesses to acquire essential assets such as equipment, plant, machinery, or vehicles, using hire purchase and finance lease facilities. The Bank also provides finance for the purchase of classic cars using hire purchase and finance lease products.

Deposits

The Bank's lending is primarily funded by the acquisition of UK savings balances. It offers a range of deposit accounts that are available directly to business customers. These accounts are also available to retail customers through a network of Deposit Intermediaries. Business customers include several broader organisations such as charities, clubs, societies, and associations.

The Bank has maintained regular dialogue with all its key stakeholders throughout the year.

Section 172 Companies Act 2006 Statement

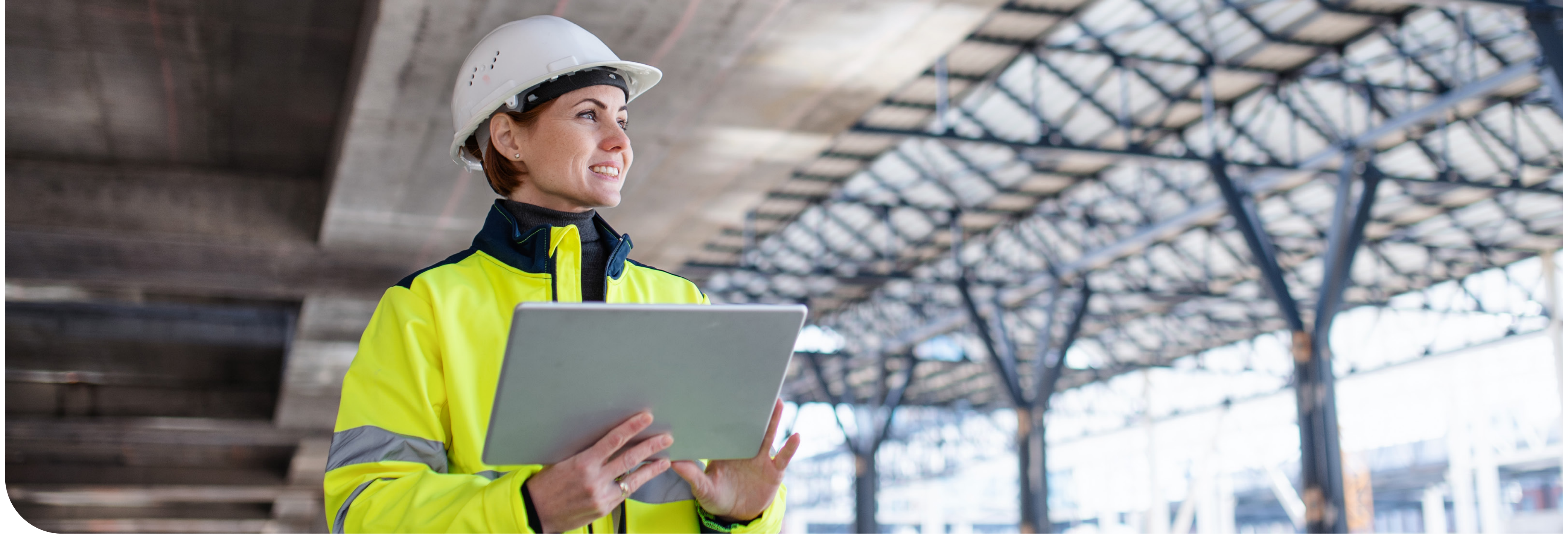
Statement by the directors in performance of their statutory duties

The Board of directors of Cambridge & Counties Bank Limited consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1) (a-f) of the Act) in the decisions taken during the year ended 31 December 2021.

Stakeholder engagement

The Bank has maintained regular dialogue with all its key stakeholders throughout the year. The table below sets out the Bank's key stakeholders and the main methods by which the Board and management engage.

Stakeholder	Description	Engagement
Shareholders	The Bank has two shareholders each holding 50% of the Bank's ordinary share capital	Both shareholders are represented on the Board and Board sub-committees by Non-Executive Directors and are therefore fully involved in the decision making of the company.
Customers	The Bank has around 8,500 deposit customers and 1,400 lending customers	The Bank undertakes regular activity to gather customer feedback. The results of which are shared with staff and the Board and incorporated into its future business development plans. The Bank engages with lending and deposit intermediaries who introduce business to the Bank as well as having regular dialogue with the borrower and deposit customer. Customer support remains a key strategic priority for the Bank in its response to the impacts of the Covid 19 pandemic. The Bank's Relationship Managers assessed the impact of Covid 19, and the support required on an individual basis with regular updates to both the Bank's Executive Committee and Board Risk & Compliance Committee. The Bank focused on the individual needs of its customers with regular reporting of the number of customers requiring support.
Employees	The average number of people employed by the Bank during the year was 183	The Bank undertakes an annual internal staff survey as well as participating in industry wide culture surveys undertaken by the Financial Services Culture Board (FSCB). We continue to record consistently high participation rates in our employee engagement survey (84%) and record strong scores. The Bank has a staff forum which meets monthly and is chaired by the Bank's CEO. As a result of staff feedback at the staff forum, we have introduced two new green benefits; salary sacrifice for the purchase of electric cars and bicycles. We have also increased our holiday provision from 27 to 30 days for all staff. The Board reviews the employee staff survey results and also receives regular reports from the CEO on the activities of the Employee Forum. During the year the Board has had regular updates on employee issues arising from Covid 19, including the response to lockdowns, the continuation of home working and return to workplace planning.
Suppliers	Business and individuals who provide services and goods which the Bank uses to deliver its products to its end customers	Management regularly meets with the Bank's key suppliers, particularly those providing important business services and information technology systems. During the year the Bank has engaged with each of its key suppliers to ensure that its own preparations, and those of its suppliers, mitigate any impacts from any vulnerability to Log4j were in place. The Bank is also actively engaging with property valuers to incorporate their views on climate change considerations into the Bank's lending protocols.
Regulators	The Bank is regulated by the PRA and FCA	The Bank's senior management are committed to fostering open and honest engagement with its Regulators in line with the cornerstone principle of the UK regulatory environment. The CEO, CFO and CRO meet regularly with the Bank's PRA Supervisory team through the framework of 'proactive engagement and continuous assessment' meetings and report on key themes discussed through committee and Board meetings as appropriate. The CRO reports to the Board Risk & Compliance Committee on material matters of regulatory liaison, and the Bank's assessment of the quality of the relationship with each Regulator. In addition, the Chairman, Senior Independent Director and Chair of Risk maintain a direct relationship with the Bank's Regulators on key themes as appropriate.
Communities	The geographic locations in which the Bank has offices, employees, and customers	The Bank is a member of several local trade bodies such as Chamber of Commerce and Business Networking groups in the regions in which it operates. The Bank also supports its staff in working with community charities such as Leicestershire Cares.



Decisions made during the year

The Board reaffirmed the Bank's current strategy, business structure, dividend policy and capital structure during 2021. The Bank's strategy has remained broadly unchanged since it started trading in 2012 and has resulted in a balance sheet with assets exceeding £1bn, with pre-tax profits in excess of £18m pa.

The Board has assessed the future operating environment for the business and expects continued growth in profits, and ongoing investment in people and systems. The Bank's strategic objectives remain unchanged. The Bank plans to continue to grow and bring its products and services to a wider geographical footprint and expand its lending activities into new asset classes where the existing capacity and capability of the Bank can be brought to bear, realising niche opportunities in markets that offer earnings at a level accretive to those achieved in the core businesses.

The Bank's future plans have been influenced by the following trends and risks:

- Macroeconomic environment (bank base rate and property valuations) and the impact of Covid 19 and the Ukraine conflict on the UK economy,
- Credit cycle impacts closely aligned to the above and the risk of material property price erosion;
- Changes in competition and market demand;
- Liquidity costs, greater commoditisation, and the continued rise in deposit brokers in both the retail and SME markets;
- Long term trends in technology investment including IT data security and cyber security threats;
- Operational Resilience including the impact of Supplier/Outsourcing Risks;
- Geopolitical headwinds and post Brexit financial services equivalence arrangements, trade negotiations, and the effects on UK business confidence; and
- The increased focus on climate change risk.

The number of newly launched niche challenger banks, together with an increase in the non-banking participation in the asset finance market, has over the past few years also had a significant effect on lending margins. This has inevitably continued to put pressure on the Bank's gross lending margins. We continue to ensure that our customers enjoy rates that compare well with those that are currently on offer in the market. Margin compression is expected to continue although we remain confident that following the expansion of our geographic footprint across the country, and investing in our relationships with our broker introducers, we will meet our growth appetite at margins commensurate with the Board's credit risk appetite.

The Bank's governance policies and processes are set out in detail on pages 42 – 71

Environmental, social and governance

Introduction

The environmental, social and governance (ESG) agenda is a key focus for the Board, with regular debate and reports received from the Executive relating to environmental, community, and wider industry issues. The Bank's governance policies and processes are set out in detail on pages 42 - 71.

The Board recognises the importance of culture to the Bank's health and creates the tone from the top so that the Board delivers on its responsibilities to all its various stakeholders, especially our customers.

The Bank is pleased to report the successful extension of its carbon neutral status from 2020 to 2021.

Reducing our environmental impact

Climate change is a significant challenge facing society, with a growing focus for all stakeholders, and the Bank continues to maintain a proactive approach to its environmental responsibilities. In 2021, the Bank collaborated with Lancaster University Management School (LUMS) to further advise how climate risk changes will impact the Bank's customer base, the properties on which it has lent money, and inform the environmental focus in the evolution of the Bank's strategy.

The Bank is currently focusing on understanding the potential impact on its loan security values and customers' investments from increased flooding as well as potential new legislation relating to minimum Energy Performance Certificate gradings. The Bank's initial analysis has concluded that its exposure to properties in high flood risk areas in England is limited to 13 properties. Properties financed by the Bank have a range of EPC gradings and the Bank is currently developing plans for how it can work with customers to assist, where required, in the upgrading of property energy standards. The Bank achieved its plans to be carbon neutral across its head office site in Leicester in 2019, and is pleased to report the successful extension of its carbon neutral plus status from 2020 to 2021 following inclusion of its two regional offices, as independently verified by Carbon Footprint Ltd.

Other non-financial disclosures

The Bank has a moral, legal, and regulatory duty to prevent, detect and deter financial crime and maintains a financial crime framework. This framework is supported and reinforced by the Bank's systems and behaviours which put the customer at the heart of every interaction. The Bank promotes an environment that protects its customers, employees, and communities from financial crime, and continues to invest in its Anti-Money Laundering (AML) and Know Your Customer (KYC) financial control system enhancements. The Bank's compliance with requirements of the financial crime framework is monitored through ongoing control testing, assurance, audit, and the provision of management information at senior governance committees. The Bank's Modern Slavery Statement (which is available on our website) sets out the policies we apply and actions we take to ensure that our employees and customers are treated with dignity and respect. This includes raising awareness of issues that could put the people the Bank comes into contact with at risks such as vulnerability and exploitation. The statement also explains how we ensure that the Bank's values are applied within our supply chain including the due diligence we carry out on our suppliers.

A highlight of 2021 was the recognition of the Bank's approach to green initiatives by Investors in the Environment (IIE) who awarded the Bank 'Best Water Reduction 2021' at their annual awards presentation.

The Board is proud of the engagement and commitment of our people in reducing the Bank's environmental impact and achieving carbon neutrality. Core to our colleague engagement is the active "Green Team", which is a cross-function team of Bank staff who volunteer to internally promote the green agenda facilitating numerous communications, initiatives and activities focussing on upcycling, recycling, and health and wellness, whilst protecting the ecosystem during the national lockdowns.

Environmental information

The Bank is committed to being a responsible user of resources and continues to consider ways in which it can reduce its environmental impact. This section reflects the Bank's emissions as required by the UK Streamlined Energy and Carbon Reporting (SECR) Regulations for a 'large unquoted organisation'. This is the first year in which the Bank is required to report on emissions, having used less than 40KwH during the prior financial year.

In calculating our emissions, we have followed the latest Department for Environment, Food and Rural Affairs (DEFRA) guidance released in 2013 and the 2019 Department for Business, Environment & Industrial Strategy (BEIS) UK Government environmental reporting guidance. We have calculated our emissions using the most up to date 2021 emission factors developed by DEFRA and BEIS.

In relation to organisational boundary, we have used the financial control approach. In relation to Operational scope, we have measured our scope 1, 2 and certain scope 3 emissions.

The table below sets out our emissions in respect of Scope 1, 2 and 3. Scope 1 covers direct emissions from owned or controlled sources, of which the Bank has none. Scope 2 covers indirect emissions from the generation of purchased electricity, steam, heating and cooling. Scope 3 includes all other indirect emissions that occur in a company's value chain.

Emissions from the Bank's head office have fallen in the year although our total reported emissions have risen as result of higher Scope 3 emissions. Our Scope 3 emissions have increased during the year as a result of:

- An 11% increase in headcount. Emissions from homeworking are calculated to have increased by 0.7%, (home workers)
- An increase in business travel arising as COVID-19 restrictions have eased (Grey fleet)
- Increased usage of our Sheffield office as COVID-19 restrictions have eased, partially offset by a reduction in our Bristol site following a move to new offices during the year.

11%
increase in headcount

Scope	Activity	2019 tCO_2e[1]	2020 tCO_2e	2021 tCO_2e
Scope 1	No operations	–	–	–
Scope 2	Leicester – electricity generation and transmission & distribution[2]	14.52	8.83	7.34
Scope 2 Sub Total		**14.52**	**8.83**	**7.34**
Scope 3	Home-workers	n/a	44.05	44.36
	Grey Fleet	31.21	3.18	16.67
	Sheffield site	n/a	2.77	10.97
	Bristol site	n/a	0.94	0.31
Scope 3 Sub Total		**31.21**	**50.94**	**72.31**
Total emissions as tonnes of CO_2e		45.73	59.77	79.64
Tonnes of CO_2e per employee[3]		0.28	0.32	0.40
Tonnes of CO_2e per £m		1.07	1.58	1.61
Carbon Offsetting				
Verified Carbon Offsets		(100)	(100)	(100)

[1] tonnes of carbon dioxide equivalent
[2] This includes a small amount of Scope 3 emissions from transmission and distribution.
[3] based on employee headcount as at the end of each financial year

The Bank's carbon footprint calculations have been verified by Carbon Footprint Ltd.

We have defined our intensity ratio as scope 1, 2 and 3 emissions in tonnes of CO2e per £m of income as this is a common business metric for the banking sector. For completeness, we have also provided the ratio of scope 1, 2 and 3 emissions in tonnes of CO2e per employee.

Cambridge & Counties Bank Ltd has also qualified for the new Carbon Neutral + for the second year due to offsetting 100 tonnes of CO2 emissions through the UK Tree Planting project, buddied with the VCS verified Reduced Deforestation (REDD) project around the world. The Bank has in total offset 300 tonnes of CO2e emissions over the past 3 years. The carbon credits were supplied by Carbon Footprint Ltd from the VSC 981 project. Details of this project with full project documentation is available on Verra's website: https://registry.verra.org/app/projectDetail/VCS/981.

Supporting our local communities

2021 saw the Bank continuing to support the communities in which we operate, and many of our colleagues live and work. This support, both in monetary donations and also practical help in the form of colleagues' time, is seen by the Bank as more important than ever, given the on-going challenges presented post Covid 19 pandemic and other social factors.

The Bank's charitable giving and coordination continues to be facilitated by a cross-functional team of Bank staff representing a diversity of background and thinking. The approach of the charities team continues to be a proactive one, with close to £35k donated in 2021.

Notable charitable efforts include working closely with the Leicestershire and Rutland Community Foundation to support a number of charities, including Turtle Dove, Soft Touch Arts, and a new relationship with The Conservation Volunteers (TCV). These charities provide amazing services and support to many vital groups within our communities, from Turtle Dove, who provide vulnerable young women with opportunities and confidence building activities designed to get them back/into the working environment; to Soft Touch Arts through their Stars programme, which allows the charity to take young peoples' passion for art and design and provide pathways into higher education or employment; and TCV who are working with young people to develop a connection between them and the vital, but often shrinking, green spaces in their community.

The Bank continues to maintain a strong relationship with Leicestershire Cares, which is a charity that brokers partnerships between the business sector and local communities that are in need, particularly children and young people. The Bank supports a number of their initiatives, including:

- Interview Techniques, which provides 14/15 year-olds with interview practice that can help shape their careers;
- Bags of Hope – raising close to £2,000 from staff donations that allowed toys and essential items to be purchased for under-privileged children and families.

A key part of the culture of the Bank is the support and encouragement of colleague's involvement in charitable efforts through a number of routes, including the matching of their fundraising efforts by the Bank. Despite the on-going Covid 19 uncertainty in 2021, this included a number of sponsored walks and runs, and a colleague helping with the creation of a borehole in Malawi. The Bank also has a number of employees that are active members in the organising and running of local charities, including the treasurer of Age UK Leicestershire.

Treating businesses fairly and helping our customers grow

The Bank is committed to treating businesses fairly and helping them grow through prompt payment of invoices and are pleased to confirm an improved performance with 99% of suppliers being paid within 30 days for the year ending 31 December 2021 (2020: 98%).

Management proactively introduced a hybrid operating model for staff to flexibly work fifty percent of their time from home.

Creating an inclusive workplace

The safety and well-being of our people is always our top priority, and the ongoing Covid 19 pandemic has reinforced how important it is that we look after each other. Early in 2020 we made the decision not to furlough any of our colleagues and provided additional measures including extending dependent leave and flexible working arrangements to support people with home schooling and carer commitments as well as additional assurance and support to vulnerable colleagues. Throughout 2021, we have continued to follow government guidelines during these challenging times, and after the 'return-to-office' advice last summer, management proactively introduced a hybrid operating model for staff to flexibly work fifty percent of their time from home.

Maintaining the flow and frequency of communication channels with all our colleagues in a remote operating environment has been more important than ever, enabling us to understand how people are feeling as they adapt to new working practices and how we can continue to better support them. In addition to our annual engagement survey, we ran frequent 'pulse' surveys, 'speed friending', and Bank-wide monthly webinars in which every colleague participates or

can view on catch-up. Increased Bank-wide connectivity and accessibility has also been achieved through the launch of the Bank's new intranet during the year, enabling more efficient access to information and creating greater social interaction. This is supported by the Bank's newsletter 'The Natter' delivering formal and informal communications and updates on departmental initiatives.

The Bank has maintained its association with the Financial Services Culture Board (FSCB) and for the sixth year, participated in the FSCB Employee Survey where results continue to be positive, recorded an improvement on prior year, and reflect strongly in comparison to other organisations. The Bank also continues to record consistently high participation rates and strong scores in the Bank's employee engagement survey, the latest conducted in October 2021.

The Board pays close attention to the Bank's culture and key people measures, including turnover rates, sickness levels and time taken to fill vacancies. All of these remain positively low, although some specialist roles within Risk and Finance take longer to fill given continued high levels of demand for these specialisms. The Bank, despite the restrictions of lockdown, has continued to add to its headcount during 2021, and is proud of how well it has on-boarded new colleagues across the Bank.

Diversity and inclusion remain at the heart of the Bank's culture, and we use active initiatives and formal policies to help support colleagues be themselves at work with access to equal opportunities. The Staff Forum continues to provide the 'voice of the organisation', influencing staff meeting agendas, policy development, and evaluation. As signatories to the Women in Finance Charter, we are committed to achieving more women in senior positions and driving greater gender balance in the industry as a whole. Gender diversity is one element of our inclusivity strategy, and we are actively promoting equality for all regardless of age, gender, ethnicity, religion, disability, sexual orientation, education, or other characteristics that may result in people being marginalised. The Bank believes that greater diversity leads to wider thinking and skill sets, creating increased innovation and ultimately, better customer service.

There has been no change to our pay and bonus schemes during the year where most staff benefit from the Bank's discretionary profit-sharing scheme capped at 10% of basic salary.

Financial Performance

Macroeconomics

In 2021 the UK economy saw a strong bounce back from the greatest contraction in GDP in modern history recorded in 2020. The fiscal and financial initiatives to limit the potential permanent damage of the national lockdowns look to be working, with unemployment remaining low despite the end of the Government furlough arrangements.

The Bank of England increased bank base rate by 0.15% to 0.25% in December 2021, the first increase in rates in over three years. Further rate increases are expected during 2022 as the Monetary Policy Committee seeks to control UK inflation within its target range.

The Bank continues to take a cautious outlook on the economy, with the medium-term impact of Covid 19 on customers and the wider economy still uncertain.

Prudential framework

The prudential framework has remained relatively unchanged during 2021. The implementation of CRRII takes place from the 1 January 2022, with the key change from the Bank's perspective being the implementation of the Net Stable Funding Ratio (NSFR) ratio with a regulatory requirement of 100%.

The improved outlook for the UK economy in 2022 is reflected in the announcement by the FPC that the Counter Cyclical Buffer (CCyB) would increase to 1% in December 2022 and anticipating continued UK economic recovery broadly in line with the MPC's central projections in the November Monetary Policy Report and absent a material change in the outlook for UK financial stability, the CCyB rate will to be increased to 2% in 2023.

The Bank's primary financial statements are reported on pages 86 – 89

Financial review

Despite the uncertain economic environment, the Bank has delivered a strong financial performance in 2021:

- Net Interest income increased by £7m compared to the prior period as a result of the growth in customer loans and advances and a lower cost of deposits. Whilst pricing in both the lending and deposit markets remains competitive, the Bank delivered a NIM of 3.8% (2020: 3.7%) and maintained a strong liquidity position with an LDR of 95% and reported an LCR of 287% at the year end.
- Whilst the economic conditions in 2021 were less favourable than those in recent years they were better than many had anticipated, and this enabled the Bank's impairment loss charge to reduce from £5.8m in 2020 to £3.5m in 2021. Balance sheet provisions increased from £12.5m to £14.8m reflecting the growth in loan balances, maintaining an impairment coverage ratio of 1.5% (2020: 1.5%).
- Recognising that the Bank's people are its key differentiator in achieving its service levels and customer support, the Board maintained their commitment to invest in infrastructure, capacity, and capability to ensure that the Bank continues to develop the skills and expertise it needs to support both the current business demands and future growth aspirations. The average number of employees increased by 11% to 183 during the year. Despite the continued investment in the business, the Bank reduced the cost income ratio from 55.6% in 2020 to 51.0% in 2021.
- Despite the challenging conditions the Board are pleased with the Bank's performance delivering a post-tax profit of £15.5m (2020: £9.4m) and ROE of 9.5% (2020: 6.4%).
- The Bank continues to maintain a strong liquidity and capital position. At the end of December 2021, the Bank held liquid assets of over £289m with an LCR of 287%, significantly above the regulatory requirement of 100%. The Bank's total capital ratio was 23.0% at the end of December with a CET1 ratio of 19.9%. The Bank's leverage ratio was 12.8%, significantly above the regulatory limit of 3.25%.
- The Board are committed to continuing to support our customers and the SME market through the recovery. The Board are planning for continued growth in the Bank's balance sheet as well as ongoing investment in its people and systems.

The Bank's performance is presented on a statutory basis and structured consistently with the key elements of the business model explained on pages 6 - 7. The 2021 financial statements have been prepared under International Financial Reporting Standards (IFRS). The Bank's primary financial statements are reported on pages 86 - 89, with a summary of these shown below. There have been no changes in the Bank's accounting policies in 2021.

2021
ROCE increased from 6.4% to 9.5%

Summary Income Statement £'000	2021	2020
Interest income	55,335	50,897
Interest expense	(10,408)	(12,785)
Net interest income	44,927	38,112
Other income	23	30
Total Operating Income	**44,950**	**38,142**
Operating expenses (including depreciation)	(22,936)	(21,168)
Impairment charge	(3,524)	(5,813)
Profit Before Tax	**18,490**	**11,161**
Taxation charge	(3,024)	(1,763)
Profit After Tax	**15,466**	**9,398**

Summary Balance Sheet £'000	2021	2020
Liquid assets	289,588	238,693
Loans and advances to customers	977,834	828,380
Other assets	7,449	7,188
Total Assets	**1,274,871**	**1,074,261**
Customer deposits	1,025,520	917,215
Central Bank facilities	78,000	–
Derivatives financial liabilities	254	–
Other liabilities	7,280	6,911
Shareholders' funds	163,817	150,135
Total Liabilities and Equity	**1,274,871**	**1,074,261**

Key Performance Metrics	2021	2020
Gross new lending	£323m	£220m
Net interest margin	3.8%	3.7%
Cost to income ratio	51.0%	55.5%
Cost of risk	38bps	72bps
Common Equity Tier 1 capital ratio	19.9%	20.7%
Total capital ratio	23.0%	24.3%
Liquidity Coverage Ratio	287%	419%
ROCE	9.5%	6.4%

Definitions:

Gross new lending – new loans drawn down during the period
Net interest margin – net interest income / average interest earning assets (at the start and end of the period)
Cost of risk – loan loss impairment charge/ average gross lending balance (at the start and end of the period)
Common equity tier 1 capital ratio – ordinary shares and reserves (common equity) /risk weighted assets (at the reporting date)
Total capital ratio – all forms of capital (CET 1 and AT1) / risk weighted assets (at the reporting date)
All capital ratios include IFRS9 transitional relief

2021

Impairment coverage ratio maintained at

1.5%

Loans and liquid assets

The Bank's balance sheet reflects strong growth in each of its Real Estate Finance, Asset Finance and Classic Cars & Sports vehicle loan portfolios in 2021. Gross Loan balances increased by £152m to £993m (2020: £841m), an increase of 18% as customers continued to invest in UK property assets and finance their business aspirations.

The Bank's portfolio of £900m (2020: £771m) commercial loans is secured on property, lending to experienced commercial and residential property investors as well as to owner occupied businesses to invest in their own commercial premises.

The Bank 's Asset Finance business provides finance for businesses to acquire essential assets such as equipment, plant, machinery, or vehicles using hire purchase and finance lease facilities. The Bank's customer exposures increased from £42m to £54m during 2021. The Bank also provides finance for the purchase of classic cars and sports vehicles using hire purchase and finance lease products which increased from £27m to £36m in 2021.

All of the Bank's Asset Finance and Classic Car & Sports Vehicle loans are set at a fixed rate with the majority of its Real Estate loans linked to bank base rate.

The Bank's liquidity portfolio comprises high quality liquid assets, primarily cash reserves at the Bank of England, International Bank Reconstruction and Development Bank and European Investment Bank bonds which are available and accessible to meet potential cash outflows. During the year the Bank repaid its £57m of Bank of England Funding for Lending Scheme (FLS) drawings and drew £78m of funding through the Term Funding Scheme with additional incentives for SMEs (TFSME). The Bank of England TFSME drawings are due for repayment by September 2025.

A key regulatory measure of liquidity adequacy is the LCR, which is designed to assess the short-term resilience of the Bank's liquidity risk profile. The Bank monitors liquidity daily to ensure it has sufficient funds available to meet maturing liabilities and uses a range of metrics to monitor this. The Bank's liquidity position remains robust with a 287% liquidity coverage ratio (LCR) (2020: 419%). The LCR reduced during the year as the Bank safely reduced the deliberate liquidity headroom retained to mitigate Brexit, the pandemic, and recessionary risks at the end of 2020.

Sources of funding

The Bank's lending is primarily funded by the acquisition of UK savings balances through a range of deposit products available direct to business customers and available to retail customers through a network of Deposit Intermediaries. Business customers include several broader organisations such as charities, clubs, societies, and associations.

The Bank grew its deposit portfolio during the year within the Board's funding and liquidity risk appetite from £917m to £1,026m, to support the lending activity.

The cost of funds reduced during the year. In the unprecedented low interest rate environment, the reduction was principally driven by maturing fixed rate bond deposits being replaced by lower priced new deposit inflows.

LIBOR

The LIBOR interest rate ceased to exist from the end of 2021. The Bank's AT1 capital Instrument interest rate was previously linked to 6 month LIBOR and was realigned to bank base rate during 2021.

Operating income

Total operating income for the year was £44.9m (2020 £38.1m).

Interest income increased by £4.4m driven by the growth in lending balances. The increase in bank base rate in December 2021 was passed on in full to all customers with a variable rate loan.

Interest payable reduced by £2.4m as a result of a reduction in the interest rates paid on the Bank's deposit accounts.

The Bank continues to generate a strong asset yield of 4.7% (2020: 4.9%) with the reduction being a combination of competition in the market driving lower lending rates, as well as a lower return on the Bank's liquid assets.

The Bank's liability yield was 0.91%, a reduction of 0.37% compared to 2020, reflecting a reduction in deposit rates across the market. The cost of the Bank's deposit balances reduced from 1.43% in 2020 to 1.06%.

In total, the Bank's net interest margin increased from 3.7% to 3.8% in 2021, principally as a result of the lower cost of funds.

Expenditure

We continue to invest in the business, with total operating expenses (including depreciation) increasing from £21.2m in 2020 to £22.9m. The key driver of the increase in costs was the increase in the Bank's staff costs. Average staff numbers increased from 165 in 2020 to 183 in 2021 which together with an increased variable pay award in 2021 increased staff costs from £12.9m to £14.9m. The increase in staff costs was partially offset by lower contractor expenditure in 2021 as the Bank focused on investing in its own full-time employees.

2021

Operating income up

£6.8m

to

£44.9m

The Bank continued its investment in its IT systems, increasing its resilience and security as well as implementing a new portal enabling on-line deposit account application, and continued to develop its data warehouse. In 2022 the Bank is planning to further enhance its online deposit services as well as enhance its real estate finance application and account servicing processes.

The Bank's cost:income ratio reduced from 55.5% to 51% in 2021 with the increase in costs more than offset by the strong growth in income.

Impairment

£'000	2021	2020
Value of loans past due – up to 3 payments missed	11,947	5,533
Value of loans in default – inc. credit impaired and IFRS Stage 3 loans	28,575	32,572
Impairment loan provisions	14,766	12,451

The Bank's asset quality remains strong, with no meaningful increase in loans in arrears or default. The Bank continued to successfully manage its defaulted loan cases throughout 2021, despite the uncertain economic and market environment.

We have not yet experienced any meaningful crystallisation of credit losses as a result of Covid 19. The Bank's cautious and conservative outlook is reflected in its balance sheet impairment provision which increased from £12.5m to £14.8m in 2021. The Bank's loan loss provision coverage ratio was maintained during the year at 1.5%.

The IFRS 9 calculated income statement impairment charge was £3.5m in 2021, a reduction of £2.3m compared to 2020. The impairment charge is calculated using the Bank's granular credit grading and IFRS9 impairment models. The models include forward looking economic scenarios. The scenarios, together with the related weightings, are provided in Note 28. The Bank continues to review all its IFRS 9 model assumptions on a regular basis to ensure they reflect actual performance as well as management's future expectations. The Bank does not have any material Post Model Adjustment overlays. The reduction in the loan impairment charge combined with the growth in total loan balances results in an annual cost of risk of 38bps (2020: 72bps).

Following the implementation of the first UK lockdown in March 2020, the Bank saw an unprecedented number of customers requesting payment holidays or partial reductions in monthly repayments. At its peak over 37% of the Bank's real estate and asset finance customers were in forbearance. The Covid 19 support initiatives provided by the UK Government in 2020 together with the Bank's individual approach to customer management has to date enabled all the Bank's customers to resume monthly loan payments. At the end of the year the Bank had forbearance arrangements in place for 6 customers (£12m total exposure).

Taxation

The taxation charge of £3.0m (2020: £1.8m), reflects an effective corporation tax rate of 19% (2020: 19%). The taxation charge includes a £140k debit (2020: £2k debit) in respect of deferred tax, and a credit of £244k in respect of the Bank's convertible loan note interest payment (2020: £274k).

Dividends and convertible loan note payments

The Bank paid a £1.3m coupon on 30 September 2021 (2020 £1.4m) in interest payments on the convertible loan notes to Cambridgeshire County Council Pension Fund, the holder of the loan notes.

The Board did not pay an ordinary share dividend in 2021 and does not propose an ordinary share dividend in 2022 as it continues to focus on maintaining a strong, well-capitalised balance sheet.

Shareholders' funds

£'000	2021	2020	Change %
Share capital	44,955	44,955	–
Convertible loan notes	22,900	22,900	–
Reserves	95,962	82,280	17%
Total Shareholder Funds	**163,817**	**150,135**	**17%**

The Bank has a strong, high quality capital base. All the Bank's shareholder funds qualify as Tier 1 capital, with its share capital and reserves qualifying as Common Equity Tier capital.

Total shareholders' funds increased during the year from £150.1m to £163.8m as a result of the growth in the Bank's retained earnings.

The Bank elected to adopt the original IFRS 9 capital transitional arrangements from 1 January 2018, and during 2020 elected to adopt the extension to these arrangements announced within the CRR Quick Fix regulations in June 2020.

In total the Bank's IFRS 9 transitional relief was £5.6m in 2021 reflecting both the

2021

Common Equity Tier 1 capital ratio remains strong at

19.9%

2020

20.7%

original and 2020 new transitional relief arrangements, this relief reduced in 2021 reflecting the scheduled reduction in the original transitional relief factor from 70% to 50%.

The Bank continues to benefit from its British Business Bank 'Enable' Guarantee facility. The guarantee provides the Bank with a facility to support up to £50m of commercial loans. The guarantee, which for regulatory reporting purposes is treated as a synthetic securitisation, enables the Bank to risk weight the loans within the guarantee at 0%. This benefit is partially offset by the cost of the first loss tranche which is reported as a capital deduction of £1.7m.

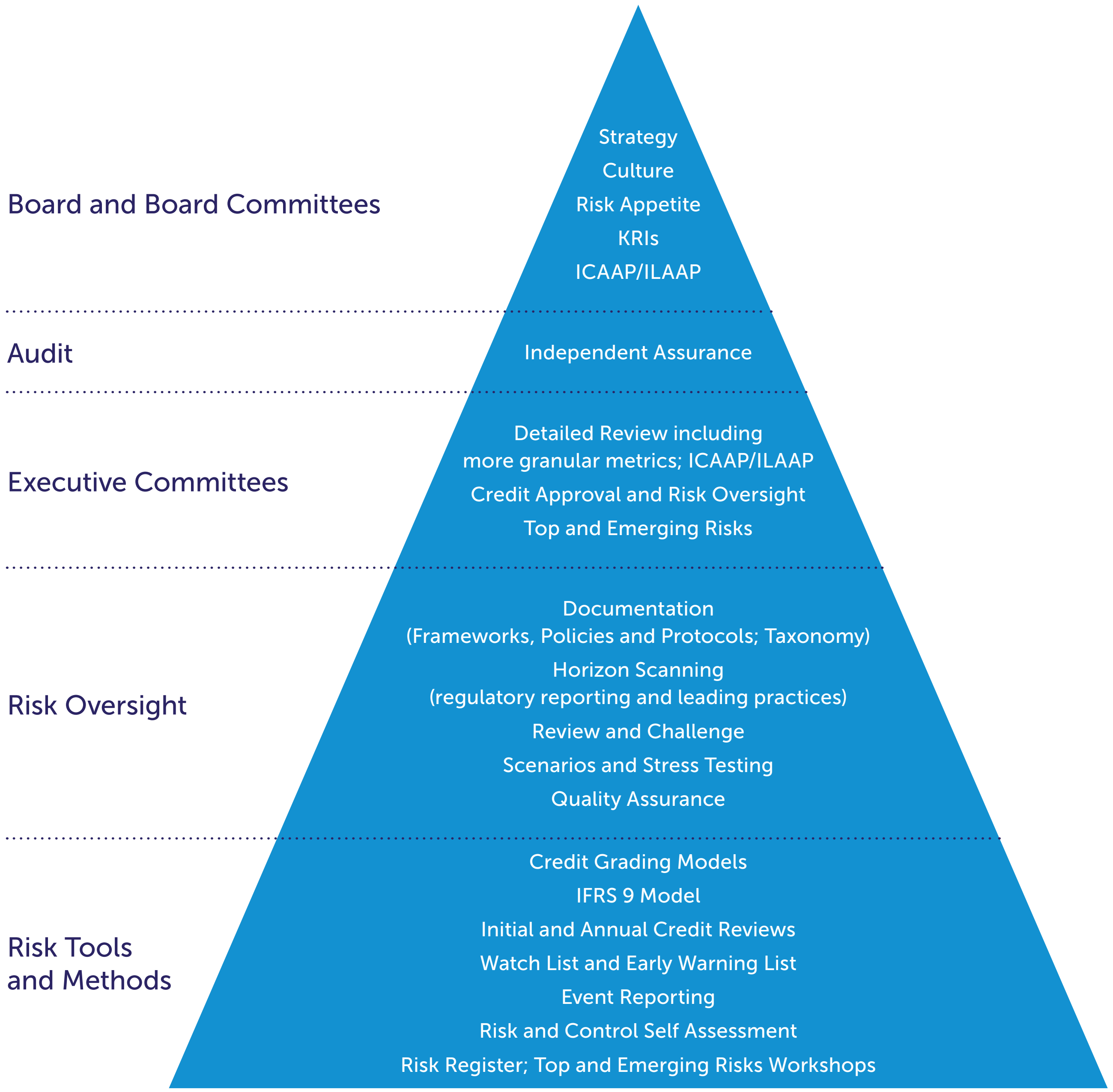
The Bank's capital ratios exceeded its regulatory requirements throughout the year.

The Bank's Common Equity Tier 1 capital ratio (including the impact of the transitional arrangements) at the 31 December 2021 was 19.9%, (2020: 20.7%). The Bank's total capital ratio (including the impact of the transitional arrangements) at 31 December 2021 was 23.0% (2020: 24.3%). The Bank's Common Equity Tier 1 capital ratio and total capital excluding the transitional arrangements were 19.2% and 22.4% at 31 December 2021 respectively.

Risk Management

Approach to risk, enterprise risk management framework and accountability

The Enterprise Risk Management Framework is the structure which underpins the Bank's robust approach to risk management, founded on the effective identification, assessment, control and management of risk, and strong risk management culture. It sets out the key principles, key tools, governance structure and roles and responsibilities in relation to risk management, across all risk categories.



The Enterprise Risk Management Framework describes the risks the Bank is willing to take in pursuit of, and the risks inherent within, its strategy, its governance of risk management, and the methodologies used to measure and monitor these within its 'Risk Management Cycle':

A Risk Register is maintained to record and monitor the full list of risks to which the Bank is exposed. The Register is regularly refreshed, primarily as part of the Risk and Control Self-Assessment programme, to ensure that it provides an up-to-date record of the Bank's overall risk profile. A forward-looking approach is ensured using quarterly stress testing and scenario analysis, feeding into the annual Internal Capital and Liquidity Adequacy Assessment processes (ICAAP and ILAAP) through which the Bank ensures that it has sufficient capital and liquidity in place to cover the risks the Bank faces.

Governance of Risk Management

Risk management is governed by the corporate governance framework and committee structure described in the Bank's corporate governance statement on pages 42 - 75, with ultimate ownership by the Board.

Three lines of defence model

The Bank manages risk using the 'three lines of defence' model, via clear responsibilities established for all colleagues in relation to risk management, including executive and non-executive responsibilities documented as applicable under the Senior Managers and Certification Regime. The model operates as follows:

First line of defence

The Chief Executive Officer, executives and their teams are responsible for managing risk on a day-to-day basis, including identification of risks as they emerge, evaluating and reporting them and ensuring that the Bank operates within risk appetite. This includes producing Key Risk Indicators and other metrics, Committee and Board reporting, making sure that all colleagues are adequately trained, and that the executives and senior management provide leadership of the governance of risk as members of the relevant committees. In support of this, a dedicated first line risk function is in place to provide risk management expertise within an operational setting. The first line risk function undertakes an active role in maintaining and improving internal control frameworks, remediating weaknesses in operational processes, and supporting business areas in the implementation of the Bank's key risk management processes.

The Bank's capital ratios exceeded its regulatory requirements throughout the year.

Second line of defence

The Chief Risk Officer and team operate as the second line of defence, working closely with executive management and their respective teams. The Chief Risk Officer is independently responsible for managing, designing, and continually updating the Enterprise Risk Management Framework and risk assessment and evaluation tools and systems, providing training, review, and challenge to the first line, and ensuring that the Bank operates within all applicable regulatory guidelines and in line with emerging industry good practices in relation to risk management. A key role of second line is to provide an independent view to management and the Board of the risks within the Bank.

Third line of defence

The third line of defence is comprised of Internal Audit, outsourced to Deloitte under the administrative supervision of the Chief Risk Officer and Chief Financial Officer, reporting to the Bank's Audit Committee. Internal Audit is responsible for providing independent assurance that the Enterprise Risk Management Framework, including its operation by the first and second lines, is operating effectively.

Risk Appetite

The Risk Appetite is the amount and type of risks the Board is willing to take in pursuit of its strategy and objectives. The overall objective is to protect the Bank from unacceptable levels of risk while supporting and enabling overall business strategy (including the assessment of new business opportunities). The Bank's Risk Appetite Statement outlines a mixture of qualitative and quantitative measures (Statements and Key Risk Indicators). The regular review of the Bank's appetite for risk is facilitated and challenged by the second line of defence, driven by the recommendations of the appropriate executives and subject matter experts. This process includes ensuring that the key risks identified remain appropriate against the strategic plan, current business, macroeconomic, geopolitical, regulatory, and legal environment, and experience of risk throughout the preceding year. On at least an annual basis, the second line of defence provides a review and challenge before presenting to the relevant executive committee (Risk Management Committee, Credit Committee or Asset & Liabilities Committee) for further review and challenge and recommendation to the Board Risk & Compliance Committee for approval. The Risk Appetite Statement is refreshed and updated annually.

The Bank's performance against Risk Appetite is monitored via reporting to the executive risk committees. This is summarised within the Chief Risk Officer Risk Management Report, which is presented to Risk Management Committee and appropriate Board committees monthly. The periodic reporting shows status against each Key Risk Indicator (KRI) and overall rating, based on parameters set within the Enterprise Risk Management Framework, using a Red/Amber/Yellow/Green scale and the expert judgement of the first and second lines. These KRI's detail the Bank's Risk Appetite and are reviewed at least annually or in the event of a major change to strategy and/or environment within which the Bank operates.

The Bank's principal risks and uncertainties

Principal Risk	Governance	Risk Appetite Statement	Key Mitigants	Comments
Total Risk Total exposure to all types of risk in aggregate,	**Enterprise Risk Management Framework** **Strategic Plan** **Risk Management Committee** **Risk & Compliance Committee**	The Bank takes a conservative approach to risk management, having a low-risk appetite for all risk types, apart from Credit Risk, for which its appetite is moderate, operating within strict parameters. We recognise that there are certain types of risk to which it does not want any exposure (e.g. fraud), noting that instances can and do occur. The Bank therefore takes active steps to minimise the possibilities of such incidents arising and strives to mitigate the impact when they happen, learning from any mistakes made.	Monthly assessment by the Chief Risk Officer of the Bank's overall risk profile, based on performance against appetite in all risk categories.	The Bank monitors its overall risk profile closely via its governance structure to ensure that it always remains within Risk Appetite, in alignment with its strategy.
Strategic The risk of having an insufficiently defined or flawed strategy that does not adapt to market and business developments and/or meet the requirements and expectations of our stakeholders.	**Enterprise Risk Management Framework** **Strategic Plan** **Risk Management Committee** **Risk & Compliance Committee** **Executive Committee** **Board**	The Bank maintains a low appetite for Strategic Risk. We aim to deliver a satisfactory return on capital to our shareholders, generating profitable returns and building gross lending balances, whilst retaining stable asset quality and maintaining a satisfactory cost of risk. We will achieve this within our stated Risk Appetite and regulatory guidelines and deliver market leading customer service, demonstrated by above average new business margins and positive customer experience. We aim to be an employer of choice, ensuring that we have the right mix of skills and experience to grow the Bank. We work hard to protect our brand, minimising reputational risk and play an active and responsible part in our community.	• Strategy debated at the Board's Strategy Day, including 2nd line challenge • Ongoing discussion at risk committees and Board • Regular employee, broker, and customer surveys • Ongoing review of financial performance against budget • Media monitoring/ engagement • Demonstrations of corporate social responsibility	The Bank has a clear strategy, which is monitored effectively.
Capital Adequacy The risk that the Bank fails to hold sufficient capital to meet its regulatory obligations, support its growth plans or to absorb shocks.	**Capital Management Policy** **Asset & Liabilities Committee** **Risk & Compliance Committee** **Executive Committee** **Board**	The Bank maintains a low appetite for Capital Adequacy Risk. Our priority is to maintain (via retained earnings) a capital surplus above CET1 and Total Capital requirements sufficient to absorb any unexpected losses and costs without using regulatory buffers and ensure that the Bank's capital base can support a growing and maturing book throughout the economic cycle, allowing for potential downturns.	• Maintaining a capital surplus buffer exceeding minimum regulatory requirements • Ongoing forecasting of capital requirements reported to risk committees • Quarterly stress testing • Annual ICAAP, incorporating regular stress testing of the capital base in 'severe yet plausible' scenarios • Horizon scanning to ensure continued compliance with regulatory requirements	The Bank maintains and monitors a robust capital base, including a management buffer more than regulatory requirements
Liquidity & Funding The risk of being unable to fund assets and meet obligations as they fall due without incurring unacceptable losses.	**Asset-Liability Management Policy** **Savings Protocols** **Asset & Liabilities Committee** **Risk & Compliance Committee**	The Bank maintains a low-risk appetite for Liquidity & Funding Risk. We will maintain sufficient liquid assets to meet liabilities as they fall due in a stressed scenario and maintain a buffer at all times, including satisfactory liquidity coverage and loan to deposit ratios. We will ensure that we are not overly reliant upon any single savings intermediary to raise deposits.	• Measuring, managing, and monitoring the risk over appropriate time horizons, including intra-day • Regular re-forecasting of the liquidity positions • Monitoring strict criteria over the use of High-Quality Liquid Assets • Annual ILAAP, including stress testing of the liquidity base in 'severe yet plausible' scenarios • Horizon scanning to ensure continued compliance with regulatory requirements	The Bank maintains and monitors its liquidity and funding requirements on a regular basis, including intra-day risk and maintains sufficient liquidity headroom to ensure that the Board's risk appetite and regulatory requirements are met at all times.
Market The risk that changes in market rates negatively impact the earnings or market value of the Bank's assets or liabilities.	**Interest Rate Risk in the Bank Book Policy** **Asset & Liabilities Committee** **Risk & Compliance Committee**	The Bank has no appetite for foreign currency risk and a low appetite for interest rate and basis risk keeping all assets, liabilities and off-balance sheet exposures in sterling and carefully managing mismatches between tenors of loans and deposits, hedging exposures where necessary within pre-determined limits.	• Scenario analysis • Use of natural balance sheet hedges and derivatives when needed • Monitoring of pipeline, repayment profiles and product maturities. • Modelling a variety of different yield curves/ interest rate paths.	Market Risk is limited to Interest Rate Risk in the Banking Book, which is monitored by the Bank's ALCO and a suite of Key Risk Indicators and tested via scenario analysis.

Principal Risk	Governance	Risk Appetite Statement	Key Mitigants	Comments
Credit The risk that counterparties fail to meet the commitments into which they have entered in a timely manner.	**Credit Risk Management Framework** **Lending Protocols** **Credit Committee** **Risk & Compliance Committee** **Environmental, Social & Governance (ESG) Committee** **Model Risk Oversight Committee**	The Bank has a moderate appetite for Credit Risk overall, maintaining conservative parameters, including a maximum LTV and a DSCR at a higher level than PRA requirements, focusing on relationship management, including annual reviews. We will maintain the Bank's lending distribution and product offering within parameters agreed by the Board, diversified by sector and UK region, with a minimal appetite for 'speculative' lending. These ensure that we concentrate lending on areas where we have experienced subject matter experts both in the first and second line of defence, with the necessary operational capacity, systems, and infrastructure to effectively manage and monitor the loans through their life cycle. We will operate within protocols, underwriting guidelines, exception limits and regulatory guidelines and manage the Early Warning Report and Watch List proactively to ensure that asset quality remains satisfactory. We will not chase growth at the expense of credit and asset quality. Although we recognise that through the full economic cycle, some credit losses are inevitable, our robust underwriting standards aim to minimise them, with close monitoring of risk appetite on a monthly basis via the comprehensive suite of KRIs.	• Regular modelling of funding requirements and interest rate risk analysis • Compliance with detailed Risk Appetite and Lending Protocol parameters • Quarterly Stress Testing of the loan portfolio • Segregation of responsibility for the management of loans and a program of underwriting from business development and sales • Use of seasoned professionals with deep subject matter expertise, experience, and ongoing training • Quality Assurance checks to ensure adherence to policies and procedures • Use of the Credit Grading Models as part of the approval process, refreshed monthly, allowing the portfolio to be monitored on an ongoing basis. • Conducting annual reviews to ensure monitoring throughout the facility lifecycle • Close monitoring of non-performing loans, including Early Warning Report, Watch List, Forbearance, and management of arrears • Detailed provisioning requirements and procedures	Credit Risk is one of the principal risks that the Bank faces, given the nature of its business. The lending portfolio is closely monitored via a suite of detailed metrics, including Concentration, Breaches and Exceptions, Asset Quality and Treasury Counterparty Indicators, and via the use of credit grading models. Stress testing is employed to ensure that sufficient capital is maintained. The Bank continues to assess the potential impact of climate change and the environmental factors across its loan portfolio as well as undertaking appropriate stress testing.

Principal Risk	Governance	Risk Appetite Statement	Key Mitigants	Comments
Legal, Compliance & Regulatory The risk that non-compliance with laws or regulations could give rise to fines, litigation, sanctions, reputational damage or financial loss.	**Compliance Framework** **Compliance Monitoring Framework** **Risk Management Committee** **Risk & Compliance Committee**	The Bank maintains a low appetite for Legal, Compliance and Regulatory Risk. Whilst we recognise that operational errors can occur, we maintain zero tolerance for reportable breaches of regulations, regulatory policy breaches, breaches of applicable laws, late responses to regulatory requests or gifts/hospitality policy breaches. We strive to ensure that we always remain within the law and regulation. Regulatory Changes (Horizon Scanning) are logged, allocated, monitored, and tracked ensuring additions to or changes within regulatory requirements are proportionately applied. All material breaches are investigated and reported to the Risk & Compliance Committee in a timely manner, rule changes are implemented within the applicable regulatory timelines and staff operate within the Bank's documented policies and controls and, where applicable, industry guidelines.	• Provision of guidance in relation to business, product, and change management requests • Ensuring appropriate registrations under the Senior Management and Certification Regime through second line oversight • Maintaining logs of internal compliance breaches, regulatory breaches & conflicts of interest • Horizon scanning to ensure continued adherence to regulatory requirements & developments • Regular reviews of training content & oversight of the training & development of staff to ensure up to date knowledge base	Ensuring compliance with all applicable regulatory requirements in a fast-changing landscape is a challenge to which the Bank devotes considerable resources, and the Compliance Framework is continually under review to ensure that it meets all requirements and is in line with leading industry practices.

Principal Risk	Governance	Risk Appetite Statement	Key Mitigants	Comments
Financial Crime The risk that inadequate controls relating to financial crime could give rise to fines, litigation, sanctions, reputational damage, or financial loss.	**Financial Crime Framework** **Risk Management Committee** **Risk & Compliance Committee**	The Bank maintains a low appetite for Financial Crime risk, aiming to maintain a low level of residual risk and striving to ensure that we always remain within the law and regulation. Whilst we recognise that operational errors can occur, we maintain zero tolerance for breaches of compliance with applicable financial crime laws and regulations, deliberate facilitation of tax evasion, bribery and facilitation payments and internal fraud. All material breaches are investigated and reported to the Risk & Compliance Committee in a timely manner, rule changes are implemented within the applicable regulatory timelines and staff operate within documented policies and controls and, where applicable, industry guidelines.	• Adherence to the Financial Crime Framework • Undertaking business wide risk assessments • Customer onboarding incorporating standard and enhanced due diligence activities • Risk based Source of Funds & Source of Wealth checks • Individual customer risk assessments which determine a customer's risk profile • Third-party due diligence. • Ongoing automated transaction monitoring and screening • Receiving internal suspicious activity reports from any employee in the business • Obtaining and using intelligence and national and international findings • Receiving reports of suspicious activity from any employee in the business • Evaluating any suspicions of money laundering/ terrorist financing • Horizon scanning to ensure continued adherence to regulatory requirements • Regular reviews of training content and training and oversight of the development of staff to ensure up to date knowledge base	Ensuring compliance with all applicable regulatory requirements in a fast-changing landscape is a challenge to which the Bank devotes considerable resources. The Financial Crime Framework is continually under review and maintained in line with leading industry practices. Annual submission of the MLRO Report to the Board.

Principal Risk	Governance	Risk Appetite Statement	Key Mitigants	Comments
Operational The risk that events arising from inadequate or internal process failure, people, and systems or from external events cause regulatory censure, reputational damage, financial loss, service disruption and/ or customer detriment.	**Operational Risk Management Framework** **Risk Management Committee** **Risk & Compliance Committee**	The Bank maintains a low appetite for Operational Risk. We aim to minimise incidents and losses arising from operational risk issues by maintaining a resilient infrastructure, including robust systems, employing, and training the right people, minimising the impact of external events, and having a framework in place to ensure operational risks are captured, monitored, and mitigated, with lessons learned from mistakes. This includes clear first line ownership of operational risks, review, and challenge by the second line and assurance from the third line. Focus is maintained on key risks, including outsourcing, operational resilience, people, cyber and technology risks, noting that the Bank has a lower appetite for risks associated with material outsourcing and critical non-outsourcing arrangements. We will ensure that our systems and operational capabilities are stable and resilient, with preventative measures in place to reduce the risk of service disruptions, and effective business continuity and disaster recovery plans maintained to limit the impact of disruption events. A suite of KRIs is in place and a framework for escalation of issues to senior management and the Board, regular reviews are undertaken via Risk and Control Self Assessments, and Operational Risk Events are captured, recorded, and reviewed with actions taken to avoid recurrence.	• Risk and Control Self Assessments and Risk Registers • Scenario Analysis • Monitoring of Operational Risk Events and 'Deep Dive' analysis, where appropriate • Reviewing projects and change management requests • Monitoring of the risk posed using critical and outsourced suppliers • Horizon scanning to ensure continued adherence to regulatory requirements and leading practices • Regular training and development of staff to ensure up to date knowledge base • An enhanced Risk and Control Self-Assessment process has been rolled out across the Bank	Operational Risk is one of the key risks the Bank faces. However, Operational Risk related losses have historically been low, the framework has been strengthened following an external review and ongoing enhancements are being undertaken to ensure that the Bank's Operational Risk Framework is in line with its regulatory requirements and leading practices.

Principal Risk	Governance	Risk Appetite Statement	Key Mitigants	Comments
Conduct The risk that customers suffer loss or detriment due to failures at any stage of the customer journey, including inadequate product design, sales/marketing processes and operational delivery, data management and record keeping or the failure of its staff or key providers of services, to act with integrity and treat the customers' best interests as the highest priority.	**Conduct Risk Framework** **Customer & Product Committee** **Risk Management Committee** **Risk & Compliance Committee**	The Bank maintains a low appetite for Conduct Risk, employing a strategy that is customer-centric, transparent and built on integrity, professionalism and fairness, ensuring that all our employees understand and fully operate within regulatory requirements (including the FCA Conduct Rules), further the Bank's Strategic Priorities (including 'maintaining a culture of 'doing the right thing' for our customers and staff' and 'delivering clear and simple products'). All our employees are responsible for proactively managing Conduct Risk and maintaining customer interests as the highest priority.	• Monitoring of the Conduct Risk KPI's • Complaints monitoring and analysis • Customer surveys • Independent review of customer calls • Annual product reviews • Analysis of the 'customer journey' • Annual report from the Chief Risk Officer on Conduct issues, feeding into the remuneration policy and practice • Linkage of all variable pay schemes to customer satisfaction measures.	The Bank prides itself on its strong risk culture and focus on customer outcomes. A Conduct Risk Framework is in place to ensure continued compliance with all requirements in this regard, including detailed reporting to the risk committees.

Principal Risk	Governance	Risk Appetite Statement	Key Mitigants	Comments
Financial Models The risk that the Bank incurs financial loss as a consequence of decisions that could be principally based on the output of (internal) models, due to errors in the development, implementation, or use of such models.	**Model Risk Governance Framework & Policy** **Model Risk Governance Committee** **Risk Management Committee** **Risk & Compliance Committee**	The Bank maintains a low appetite for Model Risk. We aim to minimise incidents and losses arising from model risk issues by maintaining and operating within an appropriate governance framework, supported by a governance policy. We have a clear definition of a model and maintain an inventory of all models within the Bank. We adopt a proportionate risk-based approach according to the materiality of each model, with specific requirements regarding model development, independent validation, approval, implementation, monitoring and recommended enhancements and future developments. Oversight is provided by the second line of defence and the quarterly Model Risk Governance Committee.	• Materiality assessment for models at inception, and annually thereafter • Regular independent model validation for high/medium rated models • Regular model self-validation for low rated models • Ongoing model monitoring for key models. • End User Computing (EUC's) framework enhancements – requiring minimum standards for databases	The Bank's Model Risk Governance Policy articulates the principles and standards for model use at each stage of its life cycle, with control and assurance requirements commensurate with the model's materiality and level of risk.

Emerging risks and uncertainties

On a regular basis, the Bank will reassess the key risks to which it is exposed and add any which are emerging, within the environment in which it operates. The Bank's emerging risks during the year and at the time of the preparation of this document are assessed to be:

Emerging Risk	Definition	The Bank's Response
Global macro economic outlook / COVID-19	As restrictions linked to Covid 19 are relaxed there remains a risk of new waves/variants and the extent of subsequent Government response. These may include temporary staff shortages, supply-chain disruptions, increased forbearance arrangements. The onset of the Ukraine conflict, and wider associated geo-political risks, has increased this uncertainty primarily through the impact on energy and commodity prices and potential supply disruptions, the impact of sanctions, and the potential for firms to adopt a 'wait and see' approach to investment..	The Bank monitors a range of current andforward-looking measures covering all susceptive risk types (primarily operational, conduct, strategic, and credit). These are reviewed by management and oversight forums on an ongoing basis, and appropriate responsive action undertaken. In mitigation to more severe scenarios, documented arrangements are in place for each of the Bank's 'Important Business Services', and for each business area, identifying key points of failure and management's contingency arrangements.
Hybrid Working (Staffing)	With the development of more flexible working arrangements hybrid working arrangements could create a new set of expectations (both employer and employee) which could change the normal pattern of working.	The Bank is focussed on maintaining a positive culture, along with positive employee relations, balancing both employer and employee needs. Regular staff feedback and surveys are undertaken to inform management's approach.
UK Macro-Economic Risk	As the impact of the pandemic unwinds there remains some risk of economic uncertainties, impacting the Bank and its customer base, resulting in the potential for the Bank being unable to achieve its business targets – (growth/credit risk related). Additionally, there remains a risk in relation to the broader economic pressures on the UK, including inflation risk.	Macro-economic risk is considered as part of the Strategic Planning process and monitored via various reporting to Board and executive level committees.
Development of the 2021+ Growth Plan	The risk that pursuing the business growth targets outlined in the most recent Strategic Plan will bring additional operational pressures and create increased risk, either Credit Risk or Operational/Fulfilment Risk.	The key mitigant will be management judgement, supported by Board oversight in areas including due diligence, management competency, and ensuring that the Bank recruits sufficient resources/skills to manage the risk.
Climate Change	Climate Change is a growing risk and ongoing consideration needs to be given to the longer-term impacts, particularly in relation to the loan portfolio. If left unchecked, will lead to a medium/long term risk to the credit quality of the book because of extreme climate events such as flood risk and poor preparedness and lack of attention given to this risk by the property industry (which continues to tolerate low EPC grades) and impact on the Asset Finance and Classic Vehicles and Sports loan (CV&S) books. Both physical and transitional risks are being factored into Risk Appetite, Key Risk Indicators, and the credit grading model calculation.	This is a topic that the Bank takes very seriously and has conducted a detailed report in response to the PRA's Climate Change Requirements and plans for firms to manage these risks. The Environmental, Social & Governance (ESG) Steering Committee, chaired by the Chief Risk Officer, continues to develop the Bank's action plans, in addition to working with external bodies, such as UK Finance, to assess sector preparedness, planning and actions to ensure the Bank's initiatives remain appropriate and relevant. Regular progress reports are provided to key stakeholders, including the Board.
Operational Resilience	Securing Operational Resilience is a key regulatory and operational requirement such that the Bank can prevent, respond to, recover, and learn from operational disruptions. As several key IT services are outsourced, including the Bank's core platform, satisfactory performance of its service providers is an essential part of ensuring Operational Resilience.	Operational Resilience and Supplier Risk Management arrangements have been significantly enhanced during 2021, including Board approval of Important Business Services (IBS's) and Impact Tolerances. Continual developments are being made and are subject to Board and Executive level oversight.
Transformation	The Bank's change agenda and investment in operations transformation to deliver improved workflow and processing efficiencies is designed to deliver clear business benefits. However, there remains some risk of increased process errors, due to the level of complexity and manual intervention in the product life cycle.	The risk is mitigated through a combination of first-line management oversight, including maintaining effective operating structures, governance forums (Executive & Business Change Committees), and Risk and Control Self-Assessments, and second and third line assurance.
Cyber Threat	The nature of cyber-attacks across the industry began to change during the pandemic with a greater proportion utilising previously unseen malware or methods, as well as an increase in volume. More recently, the Ukraine conflict has led GCHQ and the National Cyber Security Centre (NCSC – the UK's cyber watchdog) to warn of a potential increase in cyber risk, as disruptive attacks against organisations in Ukraine may 'spill over' into supportive countries. CCB's operations are inherently reliant upon its technology infrastructure, and the performance of third-party technology firms to maintain cyber security defences.	CCB's technology infrastructure is UK based and has a very small externally facing footprint, and the Bank's websites are outside its perimeter, greatly reducing the inherent exposure. Furthermore, the Bank profile, suppliers, and customer-base does not make it an obvious target for state-sponsored hackers. The Bank's technology perimeter has been reviewed without issue, and patching timescales are as aggressive as possible. Technology arrangements have been reviewed against the NCSC guidance, and no deficiencies or areas for improvement were identified. Advice has been taken from CCB's new Board advisory cyber experts, and the new OT and operational consultancy, regarding this risk. Current arrangements, including technical resiliency (firewalls, monitoring, patching, etc.), staff training, documented and tested recovery plans, and scenario playbooks, meet the recommendations received.

The Strategic report on pages 4 - 41 was approved, by order of the Board.

Richard Bryan
Company Secretary

12 April 2022

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Corporate Governance Statement

Corporate Governance Statement

How the business is managed

Design and operation of a robust corporate governance framework is critical to meeting the needs of all the Bank's stakeholders. The Bank has a well-established corporate governance structure, and the Board supports the principles of good corporate governance as set out in the UK Corporate Governance Code. Whilst the Bank is exempt from a number of the provisions due to it not being a listed entity, and its overall size in terms of employee numbers, it has reviewed the requirements and ensures that its governance processes continue to follow best practice. The Board believes that its existing governance processes are appropriate for the current size and structure of the Bank.

Structure of the Board and Board Committees

The Board has overall responsibility for the operations of the Bank and is comprised of four independent non-executive directors and two non-executive directors representing the interests of the owners. The non-executives are currently complemented by four executive director (ED) board members – the Chief Executive Officer, the Chief Financial Officer, Chief Risk Officer and Chief Development Officer.

The Board has its own terms of reference and has specific committees appointed by it for the purposes of Nominations & Governance, Audit, Risk & Compliance, Performance & Remuneration, and Executive Management. Each committee has its own terms of reference.

To ensure independence, and reduce the potential for conflict of interest, the sub-committees (excluding the Executive Committee) are each comprised entirely of non-executive directors (NEDs), although individual EDs and others attend either as a matter of course or when requested to provide advice and guidance. A NED chairs each of the Board Committees except the Executive Committee which is chaired by the CEO.

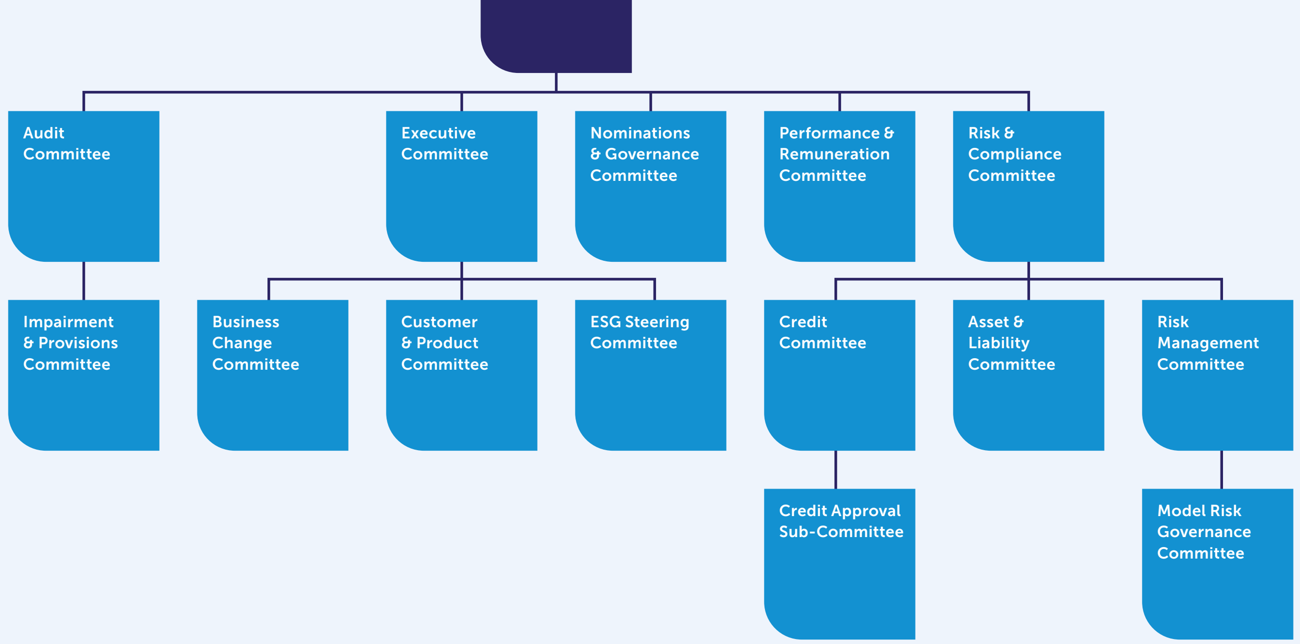
The Bank continued its succession of non-Executive directors during 2021, with the planned retirement of Paul ffolkes Davis, the Vice-Chair in June 2021, and Ian Smith, the Chair of Audit, in September 2021. Tim Harvey-Samuel, the Bursar of Trinity Hall, was appointed as a director by the Bank on 24 June 2021 as the successor to Paul ffolkes Davis. Further, Patrick Newberry was appointed as a director on 24 September 2021, succeeding Ian Smith as the Chair of Audit from 30 September 2021. These changes also led to Caroline Fawcett being elected as the Senior Independent Director from 30 September 2021, stepping into the role previously held by Ian Smith, and becoming the Chair of Nominations & Governance, following the departure of Paul ffolkes Davis in June 2021. The succession continues in 2022 with Richard Perry, the non-executive director representing the Cambridgeshire Local Government Pension Fund, retiring with effect from 31 March 2022. Christiane Wuillamie has been selected as the successor to Richard Perry.

Primary responsibilities of the Board

While the day-to-day operation of the Bank is delegated to specific individual executives as senior managers, the Board, appointed by the shareholders to monitor and govern the Bank's operations, is legally responsible for safeguarding the interests of depositors and shareholders' investments. Although the Board does not manage the Bank, one of its foremost duties is to recruit and retain suitable management. The Chief Executive Officer is the key position, and the Board appraises him and provides oversight and agreement to the appointment of other EDs and senior managers. In conjunction with the Bank's senior management team, the Board is responsible for formulating priorities, goals, and strategies for the Bank. The formulation of clear objectives and policies supplies a framework for the Chief Executive Officer to work within.

The Board both lays out the Bank's goals and monitors the progress against these. One of its main duties in this capacity is to limit the Bank's exposure to excessive risk of all kinds, including legal, reputational, and financial. By managing risk judiciously, the Board tries to maintain a balance between enterprise and caution. The Board also ensures that the Bank complies with all applicable statutes and regulations. This is achieved by monitoring compliance with regulatory and policy requirements via the Bank's compliance and audit functions, which inform the Board of how the Bank is being run. The audit operations are not limited to financial purposes and encompass the Bank's structure and operations. The Board is also responsible for commissioning audits, to provide independent assessment and assurance of the Bank.

The diagram below sets out the Bank's Committee structure:



The Board is responsible for monitoring conflicts of interests, both in the Bank's executives, and on the Board itself. If a person in a position of leadership has compromised motives, the Board must step in and resolve the conflict.

Chairman and Chief Executive Officer

The offices of Chairman and Chief Executive Officer are distinct and held by different people. The main role of the Chairman is to lead the Board and to ensure that it operates effectively. The Chief Executive's role is to put into effect the strategies agreed by the Board and the general operational management of the Bank.

Responsibilities and requirements of Executive Directors

The Executive Directors are responsible for the day-to-day operation of the Bank, supported by the senior management team. This is in part effected via policies and procedures developed with the approval of the Board (directly or indirectly through committees and sub-committees), partly through the Executive Committee, and partly by the discharge of duties as specified within individual job descriptions.

Responsibilities and requirements of Non-Executive Directors

The essential role of the Non-Executive Directors (NEDs) is to provide independent assurance to the Bank's shareholders that the business is being conducted in such a manner as to protect the interests of the Bank's depositors, and to comply with the Principles for Business of the Regulator. This responsibility is discharged via oversight of, and appropriate challenge to, the Bank's senior management via the structure of the Bank's sub-committees. Part of the process for selection and training of the NEDs is to ensure they are familiar with the regulatory principles and practices, and to maintain their knowledge of them.

Compliance with the UK Corporate Governance Code

The Bank seeks to comply with the UK Corporate Governance Code (Code) to the extent that it is applicable or considered appropriate for its business. The following areas are those where the Bank has considered the Code not applicable or appropriate:

- As a non-listed, privately owned entity the Bank has no requirement to re-elect directors or hold formal general meetings. Consequently, the sections of the Code regarding re-election of directors and general meetings have been considered not applicable;
- Whilst over half of the Board members are NEDs (six out of 10), only four of them are independent. The Board has considered this appropriate on the basis that the Bank is privately owned, and the remaining two NEDs represent the Bank's shareholders, and are independent from the Executive;
- The remuneration of the NEDs is set by the Chair and the Shareholders, and not by the Board of the Bank. This is considered appropriate on the basis that the Bank is privately owned. No remuneration for the NEDs includes share options or variable elements; and
- The Code introduced principles for ensuring that the Board understood the views of its stakeholders, including its workforce, suggesting one or a combination of a director appointed from the workforce, a formal workforce advisory panel, or a designated NED. Whilst the Bank recognises the need for workforce engagement, the suggestions were considered disproportionate for an organisation the size of the Bank. In lieu of the suggestions, the Bank elected to establish a Staff Forum that represents the workforce and meets with the Chief Executive Officer and Chief People Officer each month to discuss matters impacting the workforce. The Staff Forum is also consulted with in advance of any material organisational change. Further, the Bank undertakes an annual staff engagement survey to understand the views of its workforce. This is considered to be a proportionate approach for the Bank in adopting the principles of the Code

Compliance with the Senior Managers Regime

The Prudential Regulatory Authority (PRA) defines a set of Prescribed Responsibilities and Overall Responsibilities, which must be allocated to a senior manager performing a Senior Management Function. The following tables show the composition of the Bank's Board, the management organisation and the PRA defined Senior Management Functions allocated across the Bank. The table below shows those individuals covered by the Senior Management Function regime and the Bank's governance structure as at 1 January 2022.

Function	Description	Role	Person
1	Chief Executive Function	CEO	Donald Kerr
2	Chief Finance Function	CFO	Andrea Hodgson
3	Executive Director Function	CDO	Simon Lindley
4	Chief Risk Function	CRO	Mike Hudson
5	Head of Internal Audit	Outsourced	N/A
6	Head of Key Business Area	CLO	David Monks
9	Chair of Board	Chair	Simon Moore
10	Chair of Risk & Compliance Committee	Independent NED	Nick Treble
11	Chair of Audit Committee	Independent NED	Patrick Newberry
12	Chair of Remuneration and Performance Committee	Independent NED	Caroline Fawcett
13	Chair of Nomination and Governance Committee	Independent NED	Caroline Fawcett
14	Senior Independent Director (SID)	Independent NED	Caroline Fawcett
16	Compliance Oversight	Head of Compliance & MLRO	Elizabeth Mullins
17	Money Laundering reporting function	Head of Compliance & MLRO	Elizabeth Mullins
18	Other overall responsibility function	CPO	Sara Thorpe
		CTO	David Holton
24	Chief Operations Function	COO	Tina Hayton-Banks

NB: Senior Management Functions 7–8, 15, 19–23 and 25–27 stipulated by the FCA and PRA do not currently apply to the Bank's operating model, or the Bank is not of a size to meet the requirement to have the function.

Board and Committee attendance

The following table sets out individual director's attendance at the scheduled Board, Risk & Compliance, Audit, Performance & Remuneration and Nominations & Governance Committees meetings during 2021 (attendance is shown only where a director is a member of the committee and includes any meeting where a director is appointed or retired).

Director	Board	Risk & Compliance Committee	Audit Committee	Performance & Remuneration Committee	Nominations & Governance Committee
No. of meetings in 2021	**11**	**9**	**4**	**3**	**5**
Caroline Fawcett	11	N/M	3	3	5
Paul ffolkes Davis[1]	6	N/M	2	1	2
Tim Harvey-Samuel[2]	6	1[3]	2	2	2
Andrea Hodgson	11	N/M	N/M	N/M	N/M
Michael Hudson	11	N/M	N/M	N/M	N/M
Donald Kerr	11	N/M	N/M	N/M	N/M
Simon Lindley	11	N/M	N/M	N/M	N/M
Simon Moore	11	9		2	4
Patrick Newberry[4]	3	0	1	N/M	0
Richard Perry[5]	10	6	4	3	3
Ian Smith[6]	7	7	2	N/M	4
Christiane Wuillamie[7]	0	0	0	0	0
Nick Treble	11	9	4	3	N/M

1 resigned on 30 June 2021
2 appointed on 24 June 2021
3 became a member on 28 October 2021
4 appointed on 24 September 2021
5 resigned on 31 March 2022
6 resigned on 30 September 2021
7 appointed on 24 March 2022
N/M not a member of this Committee

The Bank has a well-established corporate governance structure, and the Board supports the principles of good corporate governance as set out in the UK Corporate Governance Code.

Performance evaluation and professional development

Each year all the Directors are subject to a formal appraisal. The Chief Executive Officer carries out appraisals of the Chief Financial Officer, the Chief Risk Officer and the Chief Development Officer based on a range of agreed personal and business objectives. The Chairman of the Board completes the Chief Executive Officer's appraisal, performance also being assessed against a range of agreed personal and business objectives.

The Chairman conducts appraisals of the independent Non-Executive Directors, basing the assessment of each Director's contribution to the Board's performance using criteria such as attendance, performance at meetings, and additional training and development requirements.

The Board conducts an annual review of its effectiveness, as do each of the Board committees.

Company Secretary and independent professional advice

Richard Bryan, the Bank's General Counsel, has served as the Company Secretary throughout the year ended 31 December 2021. The Company Secretary is responsible to the Board for ensuring compliance with corporate governance requirements. The Board has access to the Company Secretary individually and collectively. As well as the support of the Company Secretary, any Director may take independent professional advice at the Company's expense in the furtherance of their duties, where considered necessary.

Principal accountant fees and services

An analysis of fees for professional services provided by KPMG, the Company's external auditors for the year ended 31 December 2021, is set out in note 8 to the Bank's financial statements.

Internal control and governance framework

Risk management is governed within the corporate governance structure detailed on page 45, with ultimate ownership at Board level via the Risk & Compliance Committee. In addition, the Board Audit Committee facilitates third line review of all aspects of risk management, and the Nominations & Governance and Performance & Remuneration Committees have a role in the management of conduct risk, including risk culture.

An explanation of the Bank's executive committees and sub-committees is set out below:

Executive Committee

The Executive Committee is chaired by the CEO and its members include all the Bank's executive officers and General Counsel. The Executive Committee is the Bank's principal executive committee and collectively supports the Chief Executive in developing and implementing the Bank's strategy as agreed by the Board, monitoring the Bank's performance, and agreeing any actions that are required to manage issues that affect the Bank.

Other executive committee sub-committees include:

- Business Change Committee
- ESG Committee
- Customer and Product Committee

Asset and Liability Committee

The Asset and Liability Committee is chaired by the CFO and is responsible for reviewing and managing all aspects of the Bank's exposure to financial risks, including strategic risk, capital adequacy, liquidity and funding, tax, and market risks.

Credit Committee

The Credit Committee is chaired by the CLO (Chief Lending Officer) and is responsible for reviewing and managing all aspects of the Bank's exposure to credit risk.

The Credit Approval Sub-committee reports to the Credit Committee and is responsible for the review, challenge, and approval of loan terms (at origination and subsequent amendment), including pricing, within limits delegated by the Board Risk & Compliance Committee.

Impairment & Provisions Committee

The Impairment & Provision Committee is chaired by the CFO and is responsible for monitoring current and potential non-performing lending on an ongoing basis for the purposes of identifying and agreeing appropriate provisions for under recovery across the Bank's loan portfolios.

Risk Management Committees

The Risk Management Committee is chaired by the CRO and is responsible for reviewing and managing all aspects of the Bank's exposure to non-financial risks, including legal, compliance and regulatory, financial crime, operational, conduct and operational resilience risks.

The Model Risk Governance Committee is chaired by the CRO, is responsible for the management and oversight of financial models used within the firm and reports to the Risk Management Committee.

Nominations & Governance Committee report

Membership and operation of the Committee

The Nominations & Governance Committee was chaired by Paul ffolkes Davis until his retirement on 24 June 2021, and thereafter by Caroline Fawcett. The members of the Committee include the Chairman, Simon Moore, Richard Perry, Tim Harvey-Samuel and the Chair of the Audit Committee, Ian Smith (until 30 September 2021) and Patrick Newberry (from 1 October 2021). Nick Treble as Chair of Risk & Compliance Committee attends occasionally, in line with the responsibilities of his role. The Chief Executive Officer, Chief People Officer and General Counsel and Company Secretary also attend committee meetings.

The Committee is authorised by the Board to keep the structure, size, and composition of the Board under review and for making recommendations to the Board with regard to any changes required to the overall balance of skills, knowledge, experience and diversity on the Board. It leads the process for appointments to the Board, Board Committees, and the chairmanship of those committees. The Committee also considers succession planning for the Board and Executive, taking account of the skills and expertise that will be needed in the future. The Committee is responsible for monitoring the governance arrangements to ensure that such arrangements are consistent with corporate governance standards and developing best practice; it reviews and recommends any corporate governance materials for inclusion in public disclosures and regulatory responses. This Committee is responsible for overseeing that Directors fulfil their responsibilities under the Senior Management Regime. The Bank's General Counsel, or an appropriate delegate, acts as the secretary to the Committee.

Appointment of directors and succession planning

The Nominations and Governance Committee met five times during the year.

The principal activity of the Committee has been the continued succession and evolution of the Board and senior management, having exercised oversight of the creation of a Chief Transformation Officer role, the succession of Ian Smith as Chair of Audit Committee and Senior Independent Director, and commencing the activity to find a successor for Simon Moore, the Chair of the Bank, in 2022. The Committee conducted a search for a new Chair of Audit, supported by Taylor Harrison Ltd, and duly recommended to Board that Patrick Newberry replace Ian Smith as Chair of Audit following his retirement on 30 September 2021. Patrick Newberry was formally appointed as a director on 24 September 2021. The Committee has overseen the commencement of the process to identify a new Chair of the Bank in advance of the anticipated retirement of Simon Moore in July 2022.

The Board adopted a three year plan to enhance diversity and inclusion at the Bank.

Other key activity of the Committee has been to select Caroline Fawcett as the new Senior Independent Director, following the retirement of Ian Smith, the continued build of the succession plan for the Non-Executive Directors, and the activity following the output of the external board effectiveness review. It has been a critical role of the Committee over 2021 to determine the skills and knowledge required of the Board over the next few years, which was assisted by a skills review conducted as part of the board effectiveness review. The Committee has also approved activity to build out a governance operating model for the Bank over 2021 and into 2022 that will bring further maturity to the Bank's governance.

Executive succession planning

The Committee also considered the Executive succession plan, which covered Executive Committee members, heads of department and key specialist roles within the Bank.

Diversity and inclusion

The Bank is committed to fair and consistent treatment of all employees regardless of their personal characteristics, which include gender, ethnicity, religion, sexual orientation, transgender status, disability, nationality, or age. In 2021, the Board adopted a three year plan to enhance diversity and inclusion at the Bank, which promotes diversity beyond the personal characteristics to include diversity of background, thinking and experience. The Directors' report, on page 56, provides further detail on the Bank's approach to diversity and inclusion. The Board promotes the Bank's signatory to the Women in Finance Charter and affirms its aspiration to meet the target of 33% of Board positions being held by women, as set out in the Hampton-Alexander Review.

The Directors' report, on page 56, provides further detail on the Bank's approach to diversity and inclusion.

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Audit Committee report

Membership and operation of the Committee

The Audit Committee was chaired by Ian Smith, the Bank's Senior Independent NED until his retirement on 30 September 2021. Thereafter it was chaired by Patrick Newberry as the new Chair of Audit, appointed to the Bank on 24 September 2021. The members of the Audit Committee include Caroline Fawcett, Paul ffolkes Davis (until 30 June 2021), Tim Harvey-Samuel (from 1 July 2021), Richard Perry, and Nick Treble. Nick Treble is also Chair of the Risk & Compliance Committee. Committee meetings are attended by members of the Executive committee including the Chief Executive Officer, the Chief Financial Officer and the Chief Risk Officer. The Bank's outsourced internal audit provider, Deloitte, and external auditor, KPMG, attend each meeting of the Committee which typically includes a private session with the NEDs without the presence of Executives. The Company Secretary, or an appropriate delegate, acts as the secretary to the Committee.

Audit Committee responsibilities and activity in 2021

The Audit Committee met four times during 2021. The Committee's principal responsibility is to assist the Board in carrying out its responsibilities relating to accounting policies, financial governance & control framework, and financial reporting functions.

The Committee reviews the effectiveness of the Bank's internal controls, approves the internal audit programme, and examines internal and external audit reports. The Committee receives and considers the recommendations of the internal and external audit function and ensures, via management, that recommendations are implemented where necessary. Annually, the Committee receives a conclusion as to the governance, risk, and control framework from the Bank's internal auditors.

The Committee ensures the financial statements give a fair, balanced and understandable assessment of the Bank's performance. To achieve this the Committee reviews and challenges the Bank's annual financial information and in particular the significant financial reporting estimates and judgements. During 2021, the Committee has considered the following matters:

- The consistency and appropriateness of the Bank's significant accounting policies. There have been no material changes in 2021.

- Viability and going concern assessments in uncertain macroeconomic circumstances. The Committee has considered management's approach to, and the conclusions of, the assessment of the Bank's ability to remain a going concern, taking into account the Bank's capital and liquidity position. The Committee considered and, after taking the Bank's strategy and external market developments into account, supported management's conclusion that it remained appropriate to adopt the going concern basis in preparing the consolidated financial statements. The Committee also considered management's approach to, and the conclusions of, the assessment of the Bank's viability. After consideration, the Committee supported the approach adopted by management as described on page 56.

- A review of the annual report to ensure it is fair, balanced and understandable. The Committee considered management's approach to, and governance arrangements over, the preparation of this annual report and recommended to the Board that, taken as a whole, it was considered to be fair, balanced and understandable. The approach and results of the assessment are set out in the Directors' report on page 56.

- Whether the Bank has made appropriate accounting estimates and judgements The Committee has assessed the basis for, and appropriateness of, estimates and judgements proposed by management in the financial statements related to going concern, effective interest rate, IFRS 9, and intangible & tangible assets. After challenge, the Committee supported management's proposals.

- During 2021, the Committee reviewed regular reports from management assessing the adequacy of the allowance for credit impairment losses. These reports assessed the adequacy of historic provisions against subsequent recoveries, the planned recovery strategies for individual bad debt cases, reviewed management's governance arrangements over the adequacy of provisions as well as the governance over impairment models and benchmarked the Bank's metrics against other banks.

- The Committee also reviewed and challenged the Bank's effective interest rate assumptions and model outputs considering the Bank's approach to early repayment charges as well reviewing historic performance against future forecasts.

The Audit Committee appraises the performance of the internal audit function and their continued independence. The Committee has assessed internal audit resources and is satisfied that these are appropriate to fulfil their responsibilities. The Committee reviews the Bank's external audit strategy including the appointment of the external auditors and approval of the audit fees.

The Audit Committee also considered the output of work undertaken to embed a Regulatory Reporting Framework within the Bank that established a more mature framework for governance and oversight of regulatory reporting undertaken by the Bank.

Audit Tender Process

During 2021, the Bank conducted an audit tender process for both its internal audit resources and its external audit resources. In 2022, KPMG LLP will have been appointed as external auditors for 10 years and, as a Public Interest Entity, the Bank is required to undertake a formal tender process. The audit tender process was led by the Chief Financial Officer on behalf of the Audit Chair, and firms were invited to tender, submit tender proposals, and present to an Audit sub-committee for evaluation and recommendation to Audit Committee and Board on the proposed firms for appointment as auditors.

In conclusion to that process, the recommendation accepted by both the Audit Committee and Board is to appoint PwC LLP as its external auditors for the financial year ending 31 December 2022 and retain Deloitte LLP as its internal auditors.

Performance & Remuneration Committee report

Membership and operation of the Committee

The Performance & Remuneration Committee is chaired by Caroline Fawcett and its members include the Chairman, Simon Moore, Paul ffolkes Davis (until 30 June 2021), Tim Harvey-Samuel (from 1 July 2021), Richard Perry, and Nick Treble. The Chair of the Audit Committee attends meetings of the Performance & Remuneration Committee from time to time to ensure alignment between the work of the Performance & Remuneration Committee and the Audit Committee. Performance & Remuneration Committee meetings are also attended by the Chief Executive Officer the Chief People Officer and the Company Secretary. From time to time the Chief Risk Officer and Chief Financial Officer may attend to provide input on their specialist areas and to give their views on the Executives' management of risk and performance against the Senior Management Regime requirements and financial performance of the Bank. The Company Secretary, or an appropriate delegate, acts as the secretary to the Committee. No members or attendees participate in the discussion of issues directly affecting their own remuneration. The Committee invite specialist external advisors to attend at least annually to support their work and educate on best practice.

Performance & Remuneration Committee responsibilities and activity in 2021

The Performance & Remuneration Committee met three times during 2021. In these meetings, the Committee, carried out its responsibility for overseeing the performance and remuneration arrangements of the Bank, and the performance of all Executive Directors and the Chairman.

The Committee is responsible for reviewing and approving the remuneration and performance arrangements at the Bank, including reviewing the Bank's remuneration policy to ensure that it remains up to date and consistent with the relevant requirements of the Financial Conduct Authority (FCA) remuneration code (SYSC 19D) and the Prudential Regulation Authority (PRA) rulebook, as well as supporting the business strategy and values of the Bank.

During the year, the Committee reviewed and, where it felt appropriate, approved the Bank's profit share scheme, sales and executive bonus schemes, Long Term Incentive Scheme based upon agreed metrics and performance criteria, as well as upon advice from the Bank's auditors and risk function. It also oversighted the annual pay review. The Committee has considered the impact of CRD V upon its remuneration practices and strategy, together with the feedback provided from the FCA in their letter to the Chair of Remuneration Committee.

The Bank's remuneration policy is included on pages 60 - 71.

The Bank's remuneration policy is included on pages 60 – 71.

Risk & Compliance Committee report

Membership and operation of the Committee

The Risk & Compliance Committee is chaired by Nick Treble, and its members include the Chairman, Simon Moore, Richard Perry, Tim Harvey-Samuel (from October 2021) and the Chair of the Audit Committee (Ian Smith until 30 September 2021, thereafter Patrick Newberry). Committee meetings are attended by members of the Executive committee including the Chief Executive Officer, the Chief Risk Officer, the Chief Financial Officer and the Chief Development Officer. The Company Secretary, or an appropriate delegate, acts as the secretary to the committee.

Risk & Compliance Committee responsibilities and activity in 2021

The Committee met nine times during 2021. The Committee's principal responsibilities are the provision of oversight and advice to the Board in relation to current and potential future risk exposures of the Bank and future risk strategy, including determination of risk appetite and tolerance and to promote a risk awareness culture within the Bank.

> The Risk & Compliance Committee has been integral in the Bank's continued enhancement of its credit risk management framework.

During the continuation of the Coronavirus pandemic, the Committee has continued to monitor the impact of the pandemic upon the performance of the Bank, the credit quality of its products and the systemic impact upon customers and employees. This has been supported by enhanced risk monitoring and management information of key metrics and bespoke control activities.

The Committee has provided review and challenge to the ICAAP and ILAAP processes as well as the Bank's risk appetite. This review and challenge have been to both the Board in the setting of its strategic plan and ensuring this is calibrated to these elements as well as to the business in the review, and recommendation for approval of the ICAAP and ILAAP documents. In addition to the above, the Committee has been integral in the Bank's continued enhancement of its credit risk management, providing support and challenge to the revisions to the Bank's credit risk management framework and credit grading models and ensuring these are embedded into the business.

The regulatory obligations of the Bank in relation to GDPR and Financial Crime have also been under scrutiny, with the Committee monitoring compliance and embedding of these regulatory regimes within the Bank and the outcome of assurance activities in these areas. In addition, the Committee has continued its regular oversight of the lending protocols and authorities setting out the parameters to ensure that the Bank's lending is undertaken within risk appetite.

The Bank's risk management framework is addressed further on page 29.

Directors' report

Introduction

The Directors of Cambridge & Counties Bank Limited present their report and audited financial statements for the year ended 31 December 2021, in accordance with section 415 of the Companies Act 2006.

The following information is incorporated into this Directors' Report:

- The information in the Section 172 statement on page 14 on employee engagement and fostering business relationships with customers, suppliers, and others;
- The internal control and financial risk management systems described in 'how the business is managed' section of the corporate governance statement on pages 42 - 72; and
- The diversity and inclusion section of the Governance and Nominations Committee report on page 50.

Results and dividends

The statement of comprehensive income and statement of financial position for the Bank can be found on pages 86 - 87. The Directors do not propose to pay a dividend in respect of ordinary shares for the year ended 31 December 2021 (2020: Nil).

Directors

The Directors of the company who were in office during the year, or from the date of their appointment, and up to the date of signing the financial statements were:

Simon Moore	Chairman & Independent Non-Executive Director
Paul ffolkes Davis [1]	Non-Executive Director & Vice Chairman
Ian Smith [2]	Senior Independent Non-Executive Director
Caroline Fawcett [3]	Senior3 Independent Non-Executive Director
Patrick Newberry [4]	Independent Non-Executive Director
Nick Treble	Independent Non-Executive Director
Tim Harvey-Samuel [5]	Non-Executive Director
Richard Perry [6]	Non-Executive Director
Christiane Wuillamie [7]	Non-Executive Director
Donald Kerr	Chief Executive Officer
Andrea Hodgson	Chief Financial Officer
Mike Hudson	Chief Risk Officer
Simon Lindley	Chief Development Officer

1 Resigned 30 June 2021
2 Resigned 30 September 2021
3 Appointed Senior Independent Direct in addition to Independent Non-Executive Director 30 September 2021
4 Appointed 24 September 2021
5 Appointed 24 June 2021
6 Resigned 31 March 2022
7 Appointed 24 March 2022

The biographies of the Bank's Directors are available at www.ccbank.co.uk/about-us/our-directors

Power of Directors

The Directors are responsible for managing the business of the Bank and may exercise all the powers of the Bank so long as the Articles or applicable legislation do not stipulate that any such powers must be exercised by the shareholders.

Directors' indemnities

Each of the Directors has the benefit of a deed of indemnity which constitutes a 'qualifying third party indemnity provision'. This indemnification for Directors provided by the Bank has been arranged in accordance with the Articles and the Companies Act 2006. The indemnities remain in force at the date of signing these financial statements and are available for inspection at the Company's registered office.

Directors' emoluments waiver

Richard Perry, as Shareholder representative for Cambridgeshire County Council as Administering Authority of the Cambridgeshire Local Government Pension Fund, does not receive a fee for his services as a Non-Executive Director, the fees payable are distributed directly to the Pension Fund.

Governance arrangements

The Board has chosen to voluntarily adopt the principles of the UK Corporate Governance Code (Code) to the extent that they are applicable or considered appropriate for the Bank. Details of the aspects of the Code not applicable or considered appropriate for the Bank, together with the areas where the Bank has deviated from the recommendations of the Code and the rationale for this, are set out within how the business is managed in the Bank's Corporate Governance statement on pages 42 - 72.

Share capital

Details on the Bank's shareholders and share capital at 31 December 2021 are provided in Notes 25 and 32 to the financial statements.

Future developments

The future development of the Bank is set out in the Chief Executive Officer's statement on pages 10 - 11.

Political donations and expenditure

No amounts were given for political purposes during the year (2020: Nil).

Financial risk management and hedging policies

Details of the use of financial instruments, together with risk management disclosures can be found in the managing financial risk section of the financial statements in Note 28 and the Risk Management section in the Strategic report on pages 4 - 41.

Post balance sheet events

There have been no significant quantifiable events between 31 December 2021 and the date of approval of the financial statements which would require a change to, or additional disclosure, in the financial statements. The Covid 19 pandemic and the Ukrainian conflict continue to create an uncertain economic outlook across the UK and globally. Management and the Board continue to monitor the situation and evaluate the impact on the Bank on a regular basis.

Research and development activities

The Bank develops new products and services during the ordinary course of its business.

Overseas branches

The Bank does not have any branches outside of the United Kingdom.

Corporate headquarters and registered office

The corporate headquarters and registered offices address for Cambridge & Counties Bank Limited is Charnwood Court, 5B New Walk, Leicester, LE1 6TE.

Environmental information

The Bank is committed to being a responsible user of resources and continues to consider ways it can reduce its environmental impact.

The Bank's environmental and emissions information is reported on page 17.

Going concern

The Directors recognise their responsibility to assess the Bank's ability to continue as a going concern, for a period of at least 12 months from the date the financial statements are approved. The Directors' assessment of going concern is integrated with the assessment of the viability of the Bank. The Directors, having considered the matters noted in Note 4, are satisfied that adequate funding, liquidity, and capital resources will be in place to allow the financial statements to continue to be prepared on a going concern basis, and are not aware of any material uncertainties that may cast doubt upon the Bank's ability to continue as a going concern.

Viability statement

As more fully explained in the corporate governance statement on pages 42 - 72, the Bank has committed to voluntarily adopt the Code which includes provisions that require the Directors to confirm that the Bank will be able to continue in operation, and to meet its financial liabilities as they fall due over a specified period taking account of the current position, and principal risks of the Bank.

The Directors have assessed the Bank's viability to December 2024. Key capital and leverage ratios have been forecast, and regulatory and internal stress testing of the Bank's profit, capital and funding forecasts has been completed. In doing so, the Directors considered the increasing uncertainty of forecasts in the outer years of the planning period from developments in the economic environment, competition, and regulatory developments. The Directors confirm that they have carried out a robust assessment of the emerging and principal risks facing the Bank, the procedures in place to identify emerging risks, and how such risks are managed or mitigated, and, cognisant of the capital and funding resources, they have a reasonable expectation that the Bank will be able to continue in operation and meet its liabilities as they fall due in the period to December 2024.

In making this assessment, the Directors have considered a wide range of information. Central to this assessment is the detailed 2022 business plan within the Bank's 3 Year Strategic Plan. The Board have continued to conduct a number of internal capital adequacy and liquidity adequacy stress tests on the operating model, most particularly those effecting the Bank's property lending concentrations to provide insights into the Bank's financial stability. The stress testing analysis helps management understand the nature and extent of vulnerabilities to which the Bank is exposed. As a result, the Directors remain confident that the Bank holds sufficient capital to withstand severe contractions in both the number of transactions in the market, and a significant fall in capital values across both residential and commercial property, as well as the capacity to absorb a material increase in impairment provision.

In addition, the Directors have assessed the key strategic risks that could threaten the Bank's prospects and business model more broadly. Access to required talent remains a challenge, although during the year we have been able to attract the services of specialist skills in Risk, Compliance and Finance. The Board continues to review its organisational structure and succession plans for both non-executive and executive posts and is confident that it has the skills and capabilities to support the business through 2022 and beyond.

> The Bank is committed to being a responsible user of resources and continues to consider ways it can reduce its environmental impact.

Statement of Directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK-adopted international accounting standards and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of its profit or loss for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with UK-adopted international accounting standards;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Fair, balanced, and understandable

The Board has ultimate responsibility for reviewing and approving the annual report. In voluntarily adopting the principles of the Code that are considered appropriate for the Bank, the directors confirm that they consider that the annual report, taken as a whole, is fair, balanced, and understandable and provides the information necessary for the shareholders to assess the company's position, performance, business model and strategy. When arriving at this conclusion the Board was assisted by a number of processes including:

The annual report is drafted and comprehensively reviewed by appropriate senior management with overall coordination by the CFO.

A verification process is undertaken to ensure factual accuracy, with additional review of compliance with content and disclosure requirements by the Bank's General Counsel; and

The annual report is reviewed by the Bank senior management including the CFO, CRO, the Bank's Executive Committee and the Audit Committee prior to approval by the Board.

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he/ she ought to have taken as a director to make himself/ herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditors

The Board approved the appointment of PwC LLP to replace KPMG LLP as the Bank's auditor for the financial year starting 1 January 2022. More information on the audit tender process which has been completed during 2021 is included in the Audit Committee Report.

By order of the Board.

Richard Bryan
Company Secretary

12 April 2022

Remuneration policy

Purpose & Objective

This policy describes the approach taken by Cambridge & Counties Bank in relation to its management of remuneration and describes how it complies with the relevant requirements of the Financial Conduct Authority (FCA) remuneration code (SYSC 19D) and the Prudential Regulation Authority (PRA) rulebook.

The Board of Cambridge & Counties Bank is committed to ensuring that the Bank has risk-focused remuneration policies, which are consistent with and promote effective risk management and do not expose the Bank to excessive risk.

The purpose of this Remuneration Policy is to clearly document the policies, practices and procedures linked to salary, compensation and reward of employees. It is reviewed and approved annually by the Performance & Remuneration Committee.

Policy Scope

The policy relates to the remuneration of all employees; it covers both fixed (non-variable) and variable elements of pay and reward. Fixed elements are defined as salary, and allowances paid as a result of contractual obligations (e.g.: car allowance, holiday pay, medical insurance, pension and death in service). Variable elements consist of schemes designed to reward performance at both the corporate, team and individual level and/or long service (e.g. Profit share, performance bonus schemes).

Specific remuneration rules may apply to board members and employees, who, because of their function, may have a material impact on the risk profile of the Bank, collectively referred to as "Material Risk Takers".

The policy also covers fees paid to non-executive directors.

Policy

The policy is to:

1 Attract, develop, and retain high performing people with the ability, experience and skill to deliver the business strategy and objectives. The aim is for our workforce to be truly representative of all sections of society and our customers, and for each employee to feel respected and able to give their best. The policy supports the Bank's strategy on inclusion & diversity, through fair and equal remuneration decisions;

2 Offer competitive and market aligned remuneration packages in which fixed salaries are the significant component and that people, regardless of their gender, are paid the same rate for the same job;

3 Encourage and incentivise employees to create sustainable results, which are consistent with strategic goals and appropriate risk management, and align the interests of the Bank's shareholders, customers, employees, and other key stakeholders;

4 Drive behaviour consistent with the Bank's values and the FCA Code of Conduct Handbook (COCON) so that employees do what is right for the customer, for colleagues, the Bank, and other stakeholders.

The remuneration policy and structure are consistent with the Bank's long-term strategy including the overall business strategy, the risk strategy, and the Board's risk appetite across all types of risk including credit, market, operational, liquidity, reputational and other risks identified by the Bank.

This is achieved through the application of the following 6 principles which are adhered to when designing or implementing any aspect of remuneration:

i We offer a competitive total reward package that is designed to be motivating and compelling and is regularly reviewed against market rates;

ii Reward is linked to employees' behaviours and values as well as achievement: the 'how' as well as the 'what';

iii Our remuneration structures are straightforward; as such they are transparent, communicated and understood by all employees and all our stakeholders;

iv There is a clear link between business, team and individual performance and reward, and people can explain when and why adjustments for performance have been applied;

v Our remuneration practices are consistent with and promote sound and effective risk management and are fully compliant with all appropriate governance, regulatory requirements, and codes of practice;

vi Our remuneration policies, packages and processes are designed to be affordable, consistent, and efficient, and do not limit the Bank's ability to strengthen its capital base.

Remuneration Principles

The Bank will comply with the Remuneration Principles by:

- the Board annually reviewing the Bank's Remuneration Policy to ensure that it is consistent with the corporate strategic plan, agreed risk appetites and regulatory requirements;
- using the Rolling Objectives My Plan (ROMP) process to ensure that detailed performance objectives are drawn up and reviewed for all employees and are aligned to the Bank's business strategy including its risk management objectives and appetite; formally linking annual salary reviews, profit share and bonus payments to the overall performance of individuals, including achievement of performance objectives;
- ensuring that the Senior Management variable pay contain specific performance metrics linked to the long-term performance of the Bank, including compliance and risk management objectives;

- ensuring that a Conflict of Interest Policy is in place and is always adhered to;
- subjecting the implementation of the remuneration policy to central and independent internal review from the Compliance function at least annually;
- maintaining the view that all flexible remuneration schemes are discretionary and subject to the approval of the Performance & Remuneration Committee;
- having an independent Risk & Compliance function which has a direct reporting line into the Risk Committee;
- ensuring that total variable remuneration does not limit the Bank's ability to strengthen its capital base by ensuring that all variable and non-variable pay are linked to specific financial targets and are subject to the approval of the Performance & Remuneration Committee who can declare that all variable and non-variable pay will not be paid in the event of a potential capital shortfall;
- regularly reviewing the regulatory capital levels at the Bank's Risk Committee which includes the Non-Executive Directors who sit on the Performance & Remuneration Committee. The Performance & Remuneration Committee members are therefore always aware of potential capital issues;
- ensuring that the allocation of variable remuneration components within the Bank also considers all types of current and future risks, and assessments of financial performance used to calculate variable remuneration components or pools of variable remuneration components are based principally on profits;
- ensuring its pension provision is in line with its regulatory obligations under auto-enrolment as well as its business strategy and values;

- requiring its employees to undertake not to use personal hedging strategies or remuneration or liability-related contracts of insurance to undermine the risk alignment effects embedded in the remuneration arrangements;
- setting appropriate ratios between fixed and variable components of total remuneration so that the fixed element represents the highest proportion of the total remuneration package;
- confirming that payments related to the early termination of a contract reflect performance achieved over time and are designed in a way that does not reward failure;
- the Bank will use the regulators' remuneration principles in assessing its exposure to risks arising from its remuneration policy as part of the Internal Capital Adequacy Assessment Process (ICAAP);
- applying the same overall principles to all directors and employees, regardless of whether they meet the definition of "Material Risk Takers" and/or "Code Staff".
- "Signing Bonus" "buy-out" and/or "golden handshake" are not routinely used and are always subject to Chief Executive Officer and Board approval. All variable remuneration is subject to malus and clawback for a period of seven years from the date of award.

Policy Detail

Remuneration Components

Remuneration consists of two elements: fixed and variable payments.

a) Fixed Remuneration:

The fixed element of remuneration is determined by the job performed, its level of complexity and responsibility, the level of expertise and experiences required, and the remuneration paid in the market for that type of job. It is assessed on appointment and is reviewed annually. Ad hoc reviews of salary may occur if there is a major change in responsibilities or benchmarking shows salary is significantly lower than market rate. In all cases, any ad hoc review must be supported with a business case.

Non-Executive Directors are office holders who receive a fixed fee for their services, which is made up of a basic fee and an additional amount for chairing committees. They are not entitled to any elements of variable pay, or other employee benefits such as pension provision. Their fees are reviewed regularly in line with market benchmarking.

b) Variable Remuneration

The Bank has a maximum fixed to variable remuneration ratio of 1:1, in line with CRD V.

There are three schemes that make up variable remuneration:

i *Annual Profit Share & Performance Bonus schemes:* The profit share/performance bonus structure is for all employees up to and including Executive Directors and comprises of three schemes:

- Profit Share;
- Sales' Bonus;
- Senior Leadership Plan.

The purpose of these schemes is to motivate and reward high performers who significantly contribute to sustainable results and perform according to set personal objectives and behavioural expectations. Performance is assessed through the Bank's performance management process (ROMP) and is reviewed when making individual rewards.

Performance-related remuneration is paid as cash via payroll and subject to tax and National Insurance deductions. The Bank does not operate shares or share based instruments. The Senior Leadership Plan contains a four-year deferred payment clause.

ii *Long Term Incentive Plan (LTiP)*
Until 2020, the Bank awarded LTiPs to member of the Senior Management team. The last LTiP was granted in 2019 and covers the performance period 2019 to 2021.

iii *Additional Bonus Schemes*
As part of the Bank's attract and retain strategy, Performance & Remuneration Committee occasionally grant one-off bonus awards. These are always linked to achievement of business plans and are discretionary based on achievement of pre-agreed objectives and criteria.

Governance

The Board of Directors has established a Performance & Remuneration Committee, which:

- exercises independent judgment on remuneration policies, practices and recommendations of the Executive;
- ensures compliance with this policy, regulations and statutory duties;
- advises on remuneration policies and practices generally;
- provides specific recommendations on remuneration packages and other terms of employment for executive directors;
- considers the implications of remuneration policy and practices on management risk, capital and liquidity.

The Performance & Remuneration Committee is made up of Non-Executive Directors and shareholder representatives. The Chief Executive Officer, Chief People Officer and General Counsel are attendees. The full description of the Committee's composition, tasks and authority are available in its Terms of Reference. The Bank's Performance & Remuneration Committee meets a minimum of three times a year.

It is inbuilt to the remuneration review process that the Bank's Risk and Compliance function is able to provide challenge to bonus and incentive payments where it feels individuals may be rewarded for poor risk behaviours; this is achieved through the Chief Risk Officer's (CRO) report to the Performance & Remuneration Committee, inclusion of the CRO in calibration and approval meetings, and the membership of the Chair of Risk on the Performance & Remuneration Committee.

Control Function Remuneration

In line with SYSC 19D 3.18, the remuneration of senior officers in the Risk and Compliance function is proposed by the Chief Executive Officer in liaison with Human Resources and is decided upon by Performance & Remuneration Committee.

Remuneration for senior officers within Human Resources is decided upon by the CEO with approval from Performance & Remuneration Committee.

Performance assessment

All remuneration decisions are subject to assessment of performance at individual, business unit and company level (in line with the PRA rulebook 15.4, and it should be noted that currently, the Bank has only one business unit). When assessing performance, both financial and non-financial measures are considered, and to this end, clear behavioural criteria as well as qualitative and quantitative measures are detailed in the specific variable pay schemes.

Individual performance is assessed through the Bank's performance review process (ROMP) and is considered when making individual fixed or variable pay awards. These assessments can negatively or positively affect any award given.

Poor risk, compliance or conduct behaviours will affect the level of variable pay awarded to individuals. The CRO provides a report to the Performance & Remuneration Committee in Q1 each year detailing any specific concerns he/she has at individual, team and company level. The CRO report also outlines current and future risks, an assessment of the capital base of the firm and the impact these have on the determining and payment of variable pay. The CRO will recommend to Committee whether any adjustment at either individual or company level is warranted in their opinion.

The Committee is also presented with a financial performance report from the CFO to assist their deliberations on variable pay awards, which details anticipated financial outturn.

The Committee reviews multi-year performance when considering remuneration decisions, enabling it to consider longer term performance and post event risks. This is intended to ensure that individuals are held to account for the long-term impact of their decisions and actions and to ensure that they are not inappropriately rewarded for short-term success. The Committee will apply adjustments to both previous and current remuneration decisions to reflect multi-year performance (see malus and clawback below).

Pensions

The Bank does not operate an occupational pension scheme. In order to comply with its regulatory requirement under auto-enrolment, the company contributes to employee's personal pension schemes via a Group Personal Pension Plan with Royal London. Additionally, the Bank does not offer or make any discretionary pension benefits.

Guaranteed Variable Remuneration

Signing-on or buy-out guaranteed variable remuneration are given on the basis of:

- being exceptional;
- occur only in the context of hiring a new employee;
- made only where the Bank has a sound and strong capital base;
- and are limited to the first year of service unless approved by the Committee.

The Bank does not routinely use early termination or settlement payments. Where they are employed, they are in line with regulation and reflect loss of office and/or redundancy payments. They do not exceed the Bank's variable pay cap. Previously awarded bonuses will only be paid where an individual is deemed to be a "good leaver" and their performance is strong; post-event risk assessments will apply. Settlement payments or "pay offs" are not made in cases of poor conduct or performance.

Malus and Clawback

Malus means the reduction and /or cancellation of unpaid, unvested, or unsettled variable amounts of remuneration when a Trigger Event is discovered, and the Board seeks to fulfil its fiduciary duty to shareholders by invoking its discretion to reduce and/or cancel a variable remuneration amount.

Clawback means when incentive remuneration has already vested, been settled, paid, or otherwise made available, and a Trigger Event occurs which indicates an error in the calculation of an individual's remuneration, and the Board seeks to fulfil its fiduciary duty to shareholders by invoking its discretion to recoup all or part of a variable remuneration amount.

A Trigger Event includes but is not limited to:

- a material misstatement of the financial results resulting in an adjustment in the Bank's audited accounts;
- in the case of awards which are subject to the achievement of performance conditions, the assessment of any performance metric or condition based on error, or inaccurate or misleading information;
- the fact that any information used to determine the quantum of a variable remuneration amount based on error, or inaccurate or misleading information; and/or
- action or conduct of an individual which, in the reasonable opinion of the Board/Performance & Remuneration Committee, amounts to serious misconduct or gross negligence;
- events or behaviours of an individual or the existence of events attributable to an individual which led to the censure of the Bank, by a regulatory authority or have had a significant detrimental impact on the reputation of the Bank.

In respect of determining if Malus and/or Clawback should be invoked in terms of a Trigger Event which has been discovered, the Performance & Remuneration Committee may consider an individual's proximity to the applicable Trigger Event and his or her level of responsibility.

The Board is empowered with absolute discretion to enforce or decline to apply Malus and Clawback and should, in determining whether to enforce or decline it, consider the interests of the Bank and its shareholders. In making decisions, the Board may take into consideration the following factors:

- the likelihood of success of invoking Clawback and recovering such variable remuneration amounts;
- the likelihood that such claim may prejudice the interests of the Bank;
- the passage of time since the occurrence of the Trigger Event(s); and
- the existence of any legal proceedings against an individual related to the applicable Trigger Event(s).

Before invoking Malus or Clawback the Board will advise the affected individual in writing of its reasons for intending to invoke it. An individual will be given an opportunity to make representations to the Board (in writing, within a specified period) about any factors or circumstances that may be relevant to the application of the Board's discretion in invoking Malus or Clawback.

Termination of employment

The Bank's redundancy policy is to pay statutory redundancy pay. Exceptionally, if required from a business need, the Bank will enter into agreed settlement payments which are calculated on current base salary and may include awarded but deferred bonus payments. It is the Bank's policy not to include any element of future earnings or awards. The LTiP and Senior Leadership Plan schemes do include good leaver status and the reasons for termination of employment are considered when determining any award to ensure they are proportionate and reflect performance.

The Remuneration Policy documents the policies, practices and procedures linked to salary, compensation and reward of employees. It is reviewed and approved annually.

Policy Breaches

Any breaches of this policy will be reported to the Chief Risk Officer who will make an assessment as to whether further notification to the regulator is necessary. Significant breaches which require a notification to the regulators include (but are not limited to):

- any proposed changes to remuneration policies, practices or procedures which could have a significant impact on the firm's risk profile or resources;
- fraud, errors, and other irregularities which may suggest weaknesses in, or be motivated by the firm's remuneration policies, procedures or practices;
- any proposed policies, procedures or practices which could:
  - have a significant adverse impact on the firm's reputation;
  - affect the firm's ability to continue to provide adequate services to customers;
  - result in a serious detriment to a customer of the firm;
  - result in serious financial consequences to the financial system or to other firms.

Such notifications will be made as soon as the Bank becomes aware of or has information which reasonably suggests such circumstances have occurred or may occur in the future.

Disclosures: Remuneration

As a regulated BIPRU Bank, Cambridge & Counties Bank will provide the appropriate remuneration disclosures for a proportionality Tier 3 Bank within its Pillar 3 disclosure, which is published on the Bank's website.

Roles & Responsibilities

The Chief People Officer is responsible for the maintenance of this policy and ensures that Risk & Compliance are made aware of any changes to enable the policy review schedule to be updated.

Reward outcomes in 2021

The Performance & Remuneration Committee has reviewed the business performance in 2021 and considered risk events in conjunction with the Board Risk & Compliance Committee, the affordability of paying variable pay, and the associated risk of low variable pay. After assessment of performance, the Committee has approved distribution of £2.2m variable pay award for 2021 (2020: £1.4m).

Executive Director Remuneration

The table below summarises the Executive Directors' remuneration policy for 2021:

Element of Remuneration	Purpose and Link to Strategy	Operation	Maximum	Performance Targets
Salary	• The Performance & Remuneration Committee is committed to adhering to the Financial Services Remuneration Code, thus ensuring that the Bank has risk-focused remuneration policies • Reflects skills and experience over time • Reflects the value of the individual and their role • Provides an appropriate level of basic fixed income • Avoids excessive risk taking from over reliance on variable income	• Reviewed annually • Takes periodic account of practices of financial institutions of similar size, characteristics, and sector comparators	• There is no prescribed maximum annual increase • The Performance & Remuneration Committee is guided by the general increase for the broader employee population and on occasions may need to recognise, for example, an increase in the scale, scope, or responsibility of a role.	• An element of performance-related pay applies
Benefits	• To aid retention and recruitment	• Company car allowance, provision of private medical insurance, life assurance and permanent health insurance	• Not applicable	• Not applicable

Element of Remuneration	Purpose and Link to Strategy	Operation	Maximum	Performance Targets
Bonus	• Incentivises annual delivery of financial and strategic goals • Maximum bonus only payable for achieving business and personal targets	• Paid in cash • Not pensionable	• 50% of salary	• A combination of 50% company and 50% individual performance measures with a deferred element of amounts over 20% of salary paid over 3 years
Long Term Incentive Plan (LTIP) Stopped in 2020 – final scheme is 2019–2021	• Aligned to main strategic objectives of delivering sustainable growth as set out in the Bank's strategic plan	• Grant will be awarded each financial year • Paid in cash • Not pensionable	• 20% of base salary	• Achievement in final year of financial and non-financial performance measures with good and bad leaver elements • Cancellation elements apply
Pension	• Provides retirement benefits • Opportunity for executives to contribute to their own retirement plan	• Defined contribution	• Bank contribute 10% of salary provided executives contribute a min 3% of salary • Executives may request a salary sacrifice for the equivalent of their personal pension contribution. This arrangement is also available for other staff • For EDs who have exceeded their lifetime allowance and/ or tapered allowance, there is the option of taking a 10% pension allowance in cash (taxable allowance)	• Not applicable

The choice of the performance metrics applicable to the annual bonus scheme reflects the Board's belief that any incentive compensation should be appropriately challenging and tied to the delivery of the defined financial and risk management objectives, along with specific individual objectives. An element of deferral applies to the executive directors' bonus scheme.

The LTIP performance conditions were selected by the Performance & Remuneration Committee on the basis that they reward the delivery of long-term returns to shareholders and the Bank's financial growth and are consistent with the Bank's objective of delivering specific long-term value to shareholders. The LTIP scheme was discontinued in 2020, with the last granted LTIP being for the performance period ending 2021. Where performance measures are achieved for 2021, the LTIP award will vest in 2022 at a maximum of 20% base salary. The Executive bonus scheme was increased by 20% to a maximum of 50% in 2020, maintaining the variable remuneration package for Executives.

The Performance & Remuneration Committee operates the LTIP in accordance with the plan rules, consistent with market practice, and retains discretion over a number of areas relating to the operation and administration of the plan.

Benefits offered to executive directors apply from the commencement of employment.

Highest paid Director – 2021 remuneration disclosure

The total remuneration paid to the Bank's highest paid Director for qualifying services as a Director in the period from 1 January to 31 December 2021 is included in Note 11 to the financial statements.

Consideration by the Directors of matters relating to Directors' Remuneration

The Performance & Remuneration Committee engage Deloitte LLP (Deloitte) to provide independent advice on remuneration matters. Deloitte is a member of the Remuneration Consultants Group and, as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. Deloitte has provided independent advice on matters under consideration by the Performance & Remuneration Committee including compliance with regulations, advice on market trends and data, remuneration policy and implementation of remuneration arrangements, including support in remuneration arrangements for departing Executives. The Performance & Remuneration Committee is satisfied that the advice it has received has been objective and independent.

In addition, management received external advice, including market data and legal counsel, from a number of other providers which is not considered to be material in assisting the Performance & Remuneration Committee to consider Directors' remuneration.

Remuneration policy for other employees

The Bank's approach to annual salary reviews is consistent across the business with consideration given to affordability, the level of experience, responsibility, individual performance, and salary level in comparable companies.

Pension and benefits provided to all employees are broadly in line with the policy for Executive Directors, although the commencement of benefits may be subject to longer periods of eligibility at the start of employment.

Remuneration policy for Non-Executive Directors

All Non-Executive Directors are appointed for an initial term of 36 months and may be terminated by either party upon 3 months' written notice. Non-Executive fees are set in line with the policy in the table below. Non-Executive Directors are not eligible to participate in any of the benefits provided to employees or Executive Directors except for private medical insurance.

Element of Remuneration	Purpose and Link to Strategy	Operation	Maximum	Performance Targets
Fees	• Reflects time commitments and responsibilities of each role • Reflects fees paid by financial institutions of similar size, characteristics, and sector comparators	• Cash fee paid • Reviewed on an annual basis • NED fees are considered and approved by the Shareholders and Chairman • Chairman fees are approved by Performance & Remuneration Committee	• There is no prescribed maximum annual increase. All increases are guided by market rates and the general increase for the executive director population • NEDs who chair Board Committees receive an additional responsibility allowance of £6k • The Senior Independent Director receives an additional responsibility allowance of £6k	• Non-executive directors do not participate in variable pay elements

Leadership team biographies

Chairman and Executive Directors

Simon Moore
Chairman

Simon joined Cambridge & Counties Bank when it was formed in 2012, as Non-Executive Director and chair of the Nominations and Remuneration Committee. He was appointed Chairman of the Bank in October 2016.

After leaving the British Army, Simon began his banking career in 1992. He completed his training with Lloyds Bank in 1994 and spent the bulk of his career with Chase Manhattan Bank in London and New York. He also worked with Barclays Bank where he was the regional director for the corporate banking business in Wales and the Southwest of England.

Simon was a member of the management board of the Confederation of British Industry (CBI) from 2013 until 2016 and the director responsible for London, the South of England, and Financial Services. Prior to that, he spent three years as CBI International Director leading the work of the CBI in support of its members outside Europe.

Simon has recently been appointed as non-executive director and chairman to the board of PCF Bank (subject to regulatory approval) and is also non-executive chairman of RCI Bank UK. He is a trustee of the Wallscourt Foundation, supporting the students and teaching objectives of the University of the West of England, Bristol, and a lay member of the Audit and Risk Committee of the Recruitment and Employers Confederation. Formerly he was a governor at the University of the West of England and non-executive board member of the Government Office of the Southwest.

Donald Kerr
Chief Executive Officer

Donald is a career banker having joined Bank of Scotland after graduating from university. He has held leadership roles at Lloyds Banking Group, Virgin Money and Co-operative Bank. Experience gained in corporate and transactional banking led Donald to specialise in SME banking with customers that he believes are the backbone of the UK economy. Managing Director positions in distribution, operations, risk management and strategy culminated in his appointment as Chief Executive Officer for Cambridge & Counties Bank in November 2020.

Andrea Hodgson
Chief Financial Officer

Andrea joined Cambridge & Counties Bank as CFO and Board member in 2017, prior to which she held similar roles at a start-up challenger and USS Ltd. Andrea qualified as a chartered accountant with KPMG before moving into financial services and has 20 years' experience ranging from banking licence application, acquisition, and integrations through to strategy development. Andrea has a proven track record from her executive leadership roles with Lloyds Banking Group, Bank of Scotland, and National Australia group. Previously, she has also served as a Non-Executive Director and Deputy Chair for a large NHS Foundation Trust.

Andrea is passionate about motivating teams to ensure that the Finance & Treasury functions are valued and trusted business partners at the heart of the business.

Simon Lindley
Chief Development Officer

Simon has over 30 years' experience in financial services predominantly centred on business development and property lending. After starting his career in 1985 working for NatWest, Simon moved around the Midlands to broaden his knowledge by leading business development teams for Bank of Ireland, Yorkshire Bank and latterly leading the Handelsbanken in Leicester.

After joining Cambridge & Counties Bank in 2012 as its first Business Development Manager, Simon took over responsibility for the national Property Finance team in 2015 and has been at the centre of the Bank's successful balance sheet growth due to his commitment to delivering a service led and broker-centric business. Simon was appointed to the Board as Chief Development Officer In 2017, when he took over responsibility for the asset finance sales team. Furthermore, Simon's remit increased in 2020 to include customer deposits as well as marketing.

Outside of the Bank, Simon is a very proud Non-Executive Trustee of Age UK Leicestershire and has acted as the charity's treasurer for over 15 years.

Mike Hudson
Chief Risk Officer

Mike joined Cambridge & Counties Bank in January 2020, before which he was the CRO for 7 years at Brown Shipley & Co Ltd. With nearly 40 years' experience in Financial Services working across all the risk categories, Mike has spent most of his career within banking and lending, helping ensure firms have the appropriate risk and control environment.

At Cambridge & Counties Bank, he is responsible for the management and oversight of the Bank's credit risk and control framework which also includes helping the Bank meet its regulatory obligations, as well as its legal and company secretarial accountabilities. Mike also oversees the bank's response to climate change, as well as broader environmental, social and governance activities.

He's passionate about ensuring the broader Risk Management team provide the appropriate support to the Bank, allowing it to continue to grow securely.

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Leadership team biographies

Non-Executive Officers

Tim Harvey-Samuel
Non-Executive Director

Tim is the shareholder representative of Trinity Hall, Cambridge where he has been Bursar since March 2020. Prior to that, he was Bursar of Corpus Christi College, Cambridge for seven years.

He has 26 years' banking experience, mainly at Schroders and Citigroup, where he led the Equity Capital Markets Group for Europe, the Middle East and Africa. Tim's speciality for 20 years was in financial institutions where he oversaw Citigroup's equity underwriting activity, recapitalising a wide range of European banks in the aftermath of the global financial crisis. He is also the Treasurer of Gates Cambridge, the charity founded by the Bill and Melinda Gates Foundation, to support outstanding graduate students' study at Cambridge University.

Caroline Fawcett
Senior Independent Non-Executive Director, Chair of Performance & Remuneration Committee and Chair of Nominations & Governance Committee

Caroline has over 30 years' experience in financial services, specialising in marketing and customer experience in both the UK and US. After a decade as Marketing Director of the Legal & General Group, Caroline progressed to become one of the first Customer Experience Directors within the UK Insurance sector. She has since led customer driven change programmes across a range of other organisations in the public and private sectors. Caroline has held several Non-Executive Director positions in the financial services industry and public sector over the past fifteen years. She is currently on the Board of Lifesight Ltd (the Trustee for Willis Towers Watson's Master Trust pension scheme) as Chair of the Discretions Committee and also on the Board of Alzheimer's Society as Chair of the Policy, Research and Communications Committee.

Patrick Newberry
Independent Non-Executive Director and Chair of Audit Committee

Patrick's executive career spans over 30 years with PwC, where his primary focus was on strategy, performance improvement as well as all things regulatory within the financial services and insurance sectors. During this time, he was the lead in major transformational programmes and worked with large financial institutions to set strategy and transform performance. Over the last 8 years, Patrick has spent his time as non-executive director and freelance consultant for a number of financial and non-financial services organisations. He joined Cambridge & Counties Bank as Non-Executive director in June 2021, taking responsibility as Chair of Audit from September. He is currently on the Board as Chair of the Audit and Risk Committee at Brunel Pensions Partnership, is a Commissioner of Historic England and Chair of its Audit and Risk Committee. He is also Chair of the Cornwall College Group.

Nick Treble
Independent Non-Executive Director and Chair of Risk & Compliance Committee

Nick joined Cambridge & Counties Bank in January 2020 as Chair of the Board Risk & Compliance Committee. He has 40 years' experience in financial services with broad experience of corporate and SME banking, asset & liability management, risk management, trading, and general management.

He started his executive career in 1982 at the Allied Irish Banks Group and served as Group Treasurer, Group Chief Risk Officer and Chief Executive of AIB Group UK. Nick was also director of AIB Capital Markets Ltd, Allied Irish Capital Management Ltd, AIB Group (UK) plc and was a member of the AIB Group Executive Committee before retiring in 2012.

Alongside Cambridge & Counties Bank, Nick is also a Non-Executive Director at Bank Leumi UK plc, Eskmuir Properties Group and Chairman of the Saffron Building Society.

Christiane Wuillamie OBE
Non-Executive Director

Christiane began her technology career in 1980 and has gone from coding, to running a software house, to Chief Information Officer in major financial institutions. In 1994, she founded CWB, a dynamic IT Services company delivering IT projects for Banks for a fixed fee and expanding the business into large software development projects and managed services. The business grew 100% year on year for seven years, gaining many awards on the way before being sold to Thales.

From 2010 to 2015, Christiane advised the Secretary of State Rt Hon Sir Vince Cable and HM Government on how best to support SMEs in finance, export & employment law. As recognition, she was awarded the Officer of the Order of the British Empire for Services to Business.

Alongside her role as Non-Executive Director, Christiane is the co-founder of PYXIS Culture Technologies linking People – Process – Technology to business performance.

The biographies of the Bank's Directors are available at www.ccbank.co.uk/about-us/our-directors

Independent Auditor's Report

Independent auditor's report

to the members of Cambridge & Counties Bank Limited

1. Our opinion is unmodified

We have audited the financial statements of Cambridge & Counties Bank Limited ("the Company") for the year ended 31 December 2021 which comprise the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, and the related notes, including the accounting policies.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors on 08 June 2012. The period of total uninterrupted engagement is for the ten financial years ended 31 December 2021. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: financial statements as a whole	£715k (2020: £800k) 3.58% (2020: 3.89%) of normalised profit before tax	
Key audit matters		**vs 2020**
Recurring risks	Going concern	◄►
	Impairment of loans and advances to customers	◄►
	Revenue recognition – EIR accounting.	◄►

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Going Concern *Refer to page 58 (Directors Report), and page 90-91 (accounting policy)*	**Disclosure quality:** The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Company. The judgement is based on an evaluation of the inherent risks to the Company's business model and how those risks might affect the Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements in a range of plausible stress scenarios. The risk most likely to affect the Company's available financial resources over this period was the heightened macroeconomic uncertainty. This could result in reduced principal and interest collections from the Company's loan assets. The risk for our audit is whether or not a material uncertainty exists that may cast significant doubt about the ability to continue as a going concern. Had this been such, then that fact would have been required to have been disclosed.	We considered whether these risks could plausibly affect the capital, liquidity and solvency in the going concern period by assessing the Directors' sensitivities over the level of available financial resources indicated by the Company's financial forecasts taking account of severe, but plausible, adverse effects that could arise from these risks individually and collectively. Our procedures also included: — **Sensitivity analysis:** We assessed the stressed scenarios used by the Company in its forecasting of profitability, liquidity, and capital and the viability of possible management actions. — **Challenge of assumptions:** We assessed the Company's forecast profitability and capital models to identify key assumptions. We challenged the reasonableness of assumptions underpinning the Company's forecasts. — **Enquiry of Regulators**: We engaged with the Prudential Regulation Authority to understand their assessment of the Company's capital and liquidity position. — **Assessing transparency:** We critically assessed the completeness and accuracy of the matters covered in the going concern disclosure within the financial statements using our knowledge of the relevant facts and circumstances developed during our audit work, considering economic outlook, key areas of uncertainty and mitigating actions available to the Company to respond to these risks. **Our results** We found the going concern disclosure without any material uncertainty to be acceptable (2020: acceptable).

2. Key audit matters: our assessment of risks of material misstatement

	The risk	Our response
Impairment of loans and advances to customers Allowance for impairment losses: (£14.8 million; 2020: £12.5m) *Refer to pages 97 to 99 and pages 108 to 118 (accounting policy and financial disclosures).*	**Subjective estimate:** The estimation of expected credit losses ('ECL') on financial instruments, involves significant judgments and estimates. The key area where we identified greater levels of management judgement and therefore increased levels of audit focus in the Company's estimation of ECL's are: **Model estimations** – Inherently judgmental modelling is used to estimate ECLs, including for accounts in stage 3 which are individually assessed. This involves determining Probabilities of Default ('PD'), Loss Given Default ('LGD'), and Exposures at Default ('EAD'). The LGD, including collateral valuations, and PD model are the key drivers of the Company's ECL results and are therefore the most significant judgmental aspect of the Company's ECL modelling approach. **Economic scenarios –** IFRS 9 requires the Company to measure ECLs on an unbiased forward-looking basis reflecting a range of future economic conditions. Significant management judgement is applied to determine the economic scenarios used, and the probability weightings assigned to each economic scenario. **Significant Increase in Credit Risk ('SICR')** – The criteria selected to identify a significant increase in credit risk is a key area of judgement within the Company's ECL calculation as these criteria determine whether a 12 month or lifetime provision is recorded. The effect of these matters is that, as part of our risk assessment, we determined that the ECL on loans and advances has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements disclose the sensitivities estimated by the Company **Disclosure quality:** The disclosures regarding the Company's application of IFRS 9 are key to explaining the key judgements and material inputs to the IFRS 9 ECL results.	Our procedures included: — **Our financial risk modelling expertise:** We involved our own financial risk modelling specialists in evaluating the IFRS 9 models. We used our knowledge of the Company and our experience of the industry that the Company operates in to independently assess the appropriateness of the Company's IFRS 9 models and key components. — **Our economic scenario expertise:** We involved our own economic specialists to assist us in assessing the appropriateness of the Company's methodology for determining the economic scenarios used and the probability weightings applied to them. We assessed the four key economic variables which included agreeing the economic variables to external sources. We also assessed the overall reasonableness of the economic forecasts by comparing the Company's forecasts to our own modelled forecasts. As part of this work we assessed the reasonableness of the Company's considerations of the current macroeconomic uncertainty. — **Tests of details:** We sample tested key inputs and assumptions impacting ECL calculations, specifically those used in the determination of probability of default and loss given default. This included performing sensitivity analysis to understand the significance of certain assumptions; benchmarking procedures to compare the Company's key assumptions to comparable peer group organisations; and assessing the key assumptions against the Company's historical experience. Additionally, we performed detailed credit file reviews of the stage 3 individually assessed impaired loans to determine they were appropriately assessed and reserved. — **SICR**: We assessed the ongoing effectiveness of the SICR criteria and independently calculated the loans' stage for the Company's loans and receivables. — **Assessing transparency:** We evaluated whether the disclosures appropriately reflect and address the uncertainty which exists when determining the Company's overall ECL. As a part of this, we assessed the sensitivity analysis that is disclosed. In addition, we challenged whether the disclosure of the key judgments and assumptions was sufficiently clear. **Our results** — We found the resulting estimate of the ECL impairment provision to be acceptable (2020: acceptable).

2. Key audit matters: our assessment of risks of material misstatement (cont.)

	The risk	Our response
Revenue recognition – EIR accounting – Real Estate Finance EIR liability (£4.1 million; 2020: £3.1m) *Refer to page 78 (accounting policy and financial disclosures).*	**Subjective estimate:** Using a spreadsheet based model, fees earned and incurred on loans and advances to customers are recognised using the effective interest rate method that spreads directly attributable expected cashflows over the expected lives of the loans. The directors apply judgement in assessing the expected repayment profiles used to determine the EIR period. The most critical element of judgement being the expected paydown profile of the loans. The directors have determined this estimate with reference to product mix, historical customer behaviour since the origination of the Company in 2012, and management judgement over future redemption profiles of the loans. The effect of these matters is that, as part of our risk assessment, we determined that cash flows recognised on an effective interest rate basis have a high degree of estimation uncertainty for the Real Estate Finance loan book, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements disclose the sensitivities estimated by the Company.	Our procedures included: — **Historical comparison:** We critically assessed the expected paydown profile assumptions against the Company's recent historical experience of customer behaviour. — **Expectation vs outcome:** We applied alternative statistics based forecasting methodologies, based on actual redemptions experience, to create an independent expectation of the expected repayment profiles and hence the calculated EIR adjustment. We compared our result to the Company's EIR adjustment and assessed whether the expected repayment profile assumptions were appropriate. — **Methodology implementation:** We assessed the methodology applied by management against IFRS 9 requirements and performed recalculations. This included considering the ongoing appropriateness of fees and costs included or excluded from the EIR calculation. — **Assessing transparency**: We assessed the adequacy of the Company's disclosures regarding the degree of estimation involved in arriving at the interest income recognised and its sensitivity to key assumptions. **Our results** We found the resulting estimate of EIR to be acceptable (2020: acceptable).

We continue to perform procedures over privileged user access management. However, following the implementation of satisfactory mitigating actions by management during the financial year, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

3. Our application of materiality and an overview of the scope of our audit

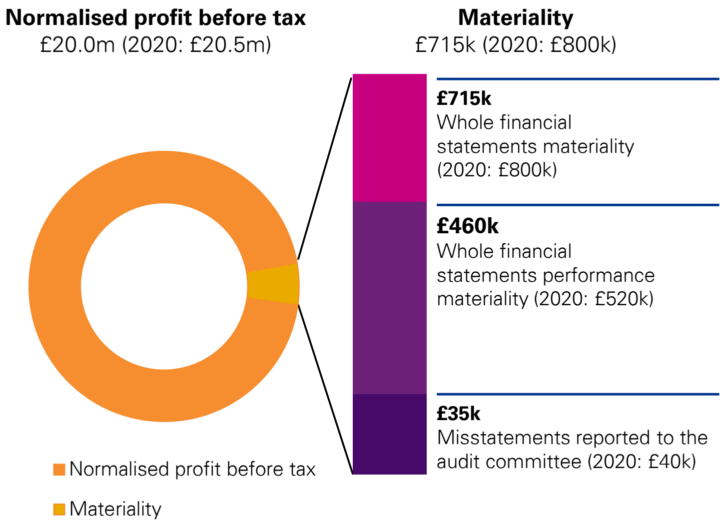
Materiality for the financial statements as a whole was set at £715k (2020: £800k), determined with reference to a benchmark of the Company's profit before tax, normalised by averaging over the last four years due to the impact of Covid-19 on the financial performance in the years ended 31 December 2020 and 31 December 2021, of which it represents 3.58% (2020: 3.89% of profit before tax, normalised by averaging over the last three years).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole. Performance materiality was set at 65% (2020 : 65%) of materiality for the financial statements as a whole, which equates to £460k (2020: £520k). We applied this percentage in our determination of performance materiality based on the level of identified misstatements, control deficiencies and changes in the control environment during the prior period.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £35k (2020: £40k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality and performance materiality levels specified above and was performed by a single audit team.

We were able to rely upon the Company's internal control over financial reporting in several areas of our audit, where our controls testing supported this approach, which enabled us to reduce the scope of our substantive audit work; in the other areas the scope of the audit work performed was fully substantive.



4. Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

An explanation of how we evaluated management's assessment of going concern is set out in the related key audit matter in section 2 of this report.

Our conclusions based on this work:

— we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;

— we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and

— we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;

— we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and

— we have nothing material to add or draw attention to in relation to the directors' statement in note 4 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

Fraud risk assessment

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

— Enquiring of directors and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud;

— Reading Board and various other committee minutes;

— Considering remuneration incentive schemes and performance targets for management and directors;

— Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition under the effective interest rate ('EIR') method, arising from the judgements in relation to customer paydown profiles. We also identified a fraud risk related to estimation of impairment of loans and advances to customers specifically relating to the economic scenarios and cashflow forecasts as these involve subjective judgements, in response to possible pressures to meet performance targets.

Further detail in respect of revenue recognition - EIR accounting and impairment of loans and advances to customers is set out in the key audit matter disclosures in section 2 of this report.

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included journal entries with specific comments assessed as higher risk.
- Assessing significant accounting estimates for bias.

We discussed with the Audit Committee matters related to actual or suspected fraud, for which disclosure is not necessary, and considered any implications for our audit.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's license to operate. We identified the following areas as those most likely to have such an effect: specific areas of regulatory capital and liquidity, conduct, money laundering, sanctions list and financial crime, and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

— we have not identified material misstatements in the strategic report and the directors' report;

— in our opinion the information given in those reports for the financial year is consistent with the financial statements; and

— in our opinion those reports have been prepared in accordance with the Companies Act 2006.

7. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

— adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

— the financial statements are not in agreement with the accounting records and returns; or

— certain disclosures of directors' remuneration specified by law are not made; or

— we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 59, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

9. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Matthew Rowell (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

12 April 2022

Financial Statements

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December

£'000	Note	2021	2020
Interest income calculated using the effective interest rate	6	55,335	50,897
Interest expense	6	(10,408)	(12,785)
Net interest income		44,927	38,112
Other income	7	23	30
Total operating income		**44,950**	**38,142**
Administrative expenses	9	(21,965)	(20,236)
Depreciation and amortisation	18,19	(971)	(932)
Operating profit before impairment losses		**22,014**	**16,974**
Impairment losses on loans and advances to customers	16	(3,524)	(5,813)
Profit before tax		**18,490**	**11,161**
Taxation charge	12	(3,024)	(1,763)
Profit after tax		**15,466**	**9,398**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Fair value through other comprehensive income: Debt securities		(501)	24
Fair value through other comprehensive income – net change in value	25	(411)	29
Related tax	25	(90)	(5)
Total other comprehensive income		**(501)**	**24**
Total comprehensive income attributable to owners of the Bank		**14,964**	**9,422**

All profit for the year arises from continuing operations.
The Notes on pages 90 - 126 are an integral part of these financial statements.

Statement of Financial Position

For the year ended 31 December

£'000	Note	2021	2020
Assets			
Cash and balances at central banks	13	240,158	190,962
Loans and advances to banks	14	12,293	9,687
Debt securities	17	37,137	38,044
Loans and advances to customers	15	977,834	828,380
Derivative financial assets	21	–	9
Other assets and prepayments	20	2,091	1,431
Property plant and equipment	18	2,587	2,934
Intangible assets	19	1,589	1,567
Current tax asset		407	522
Deferred taxation	12	775	725
Total assets		**1,274,871**	**1,074,261**
Liabilities			
Customers' accounts	22	1,025,520	917,215
Central Bank facilities	23	78,000	–
Derivative financial liabilities	21	254	–
Other liabilities and accruals	24	7,280	6,911
Total liabilities		**1,111,054**	**924,126**
Equity			
Share capital	25	44,955	44,955
Convertible loan notes	25	22,900	22,900
Fair value through other comprehensive income reserve	25	(475)	26
Retained earnings		96,437	82,254
Total equity		**163,817**	**150,135**
Total liabilities and equity		**1,274,871**	**1,074,261**

These financial statements were approved by the Board of Directors on 12 April 2022 and were signed on its behalf by:

Donald Kerr
Chief Executive Officer

Company registered number: 07972522
The Notes on pages 90 - 126 are an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December

£'000	Share capital	Contingent convertible loan notes	Fair value through other comprehensive income reserve	Retained earnings	Total equity
Balance at 1 January 2021	**44,955**	**22,900**	**26**	**82,254**	**150,135**
Profit for the year	–	–	–	15,466	15,466
Other comprehensive income	–	–	(501)	–	(501)
Total comprehensive income for the period	–	–	(501)	15,466	14,965
Transactions with owners, recorded directly in equity					
Convertible loan note interest	–	–	–	(1,283)	(1,283)
Total contributions by and distributions to owners	–	–	–	(1,283)	(1,283)
Balance at 31 December 2021	**44,955**	**22,900**	**(475)**	**96,437**	**163,817**

£'000	Share capital	Contingent convertible loan notes	Fair value through other comprehensive income reserve	Retained earnings	Total equity
Balance at 1 January 2020	**44,955**	**22,900**	**2**	**74,296**	**142,153**
Total comprehensive income for the period					
Profit for the year	–	–	–	9,398	9,398
Other comprehensive income	–	–	24	–	24
Total comprehensive income for the period	–	–	24	9,398	9,422
Transactions with owners, recorded directly in equity					
Convertible loan note interest (net of tax)	–	–	–	(1,440)	(1,440)
Total contributions by and distributions to owners	–	–	–	(1,440)	(1,440)
Balance at 31 December 2020	**44,955**	**22,900**	**26**	**82,254**	**150,135**

The Notes on pages 90 - 126 are an integral part of these financial statements.

Statement of Cash Flow

For the year ended 31 December

£'000	Note	2021	2020
Cash flows from operating activities			
Profit after tax		15,466	9,398
Adjustments for:			
Depreciation, amortisation and loss on disposals	18,19	971	932
Non cash item on adoption of IFRS16	29	–	(193)
Taxation charge	12	3,024	1,763
		19,461	11,900
Net increase in other assets/liabilities			
Net (increase)/decrease in loans and advances to customers	15	(149,454)	(66,877)
Net increase/(decrease) in customers' accounts	22	108,305	62,766
Net increase/(decrease) in central bank facilities	23	78,000	–
Net (increase)/decrease in value of debt securities	17	591	518
Net decrease in derivatives	21	262	(40)
Net increase in other liabilities and provisions	24	371	1,071
Net (increase) in other assets & prepayments	20	(661)	(207)
Income tax paid		(3,050)	(3,881)
		34,364	(6,650)
Net cash from operating activities		**53,825**	**5,250**
Cash flows from investing activities			
Proceeds from sales of debt securities	17	7,000	–
Acquisition of debt securities	17	(7,094)	(38,533)
Acquisition of property, plant & equipment and intangible assets	18,19	(646)	(1,295)
Net cash from investing activities		**(740)**	**(39,828)**
Cash flows from financing activities			
Convertible loan note interest paid	25	(1,283)	(1,440)
Net cash from financing activities		**(1,283)**	**(1,440)**
Net increase in cash and cash equivalents	13	51,802	(36,018)
Cash and cash equivalents at 1 January	13	200,649	236,667
Cash and cash equivalents at 31 December		**252,451**	**200,649**

Cash and cash equivalents comprise of:
- Cash and balances at central banks (including any accrued interest)
- Loans and advances to banks (including any accrued interest) all of which have a maturity of less than 3 months

The Notes on pages 90 - 126 are an integral part of these financial statements.

Notes to the Financial Statements

1 Reporting entity

Cambridge & Counties Bank Limited (referred to as 'the Bank') is a company incorporated and domiciled in the United Kingdom. The Bank is registered in England and Wales and has the registered number 07972522. The registered address of the Bank is Charnwood Court, 5b New Walk, Leicester, England, LE1 6TE. Cambridge & Counties Bank is a UK Bank that specialises in providing lending and deposit products to Small and Medium Enterprises (SMEs). The Bank is a private company limited by shares.

2 Basis of accounting

The Bank's financial statements have been prepared in accordance with UK-adopted international accounting standards. They have been prepared under the historic cost convention as modified by the revaluation of financial instruments through profit or loss, and the revaluation of financial instruments through other comprehensive income. The financial statements are presented in pounds sterling, which is the functional and presentational currency of the Bank.

Judgements made by the Directors in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment are discussed in Note 5 to the Financial Statements.

3 Changes in accounting policies

There have been no changes to the Bank's accounting policies during 2021.

4 Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Bank has the resources to continue in business for a period of at least 12 months from the date of signing these financial statements. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, impairment, cash flows and capital resources.

The Board remains confident that the offering to the market remains relevant and attractive, and that 2022 will present further opportunities to continue to grow customer assets without strain on the Bank's capital or liquidity measures. The Bank's 3-year strategic plan is updated quarterly to produce a forward-looking assessment.

The Directors have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. The projections for the Bank's future performance, capital strength and liquidity, for a period in excess of 12 months from the date of approval of these accounts all show that the Bank has adequate resources to meet its regulatory and operational requirements. Therefore, the going concern basis of accounting has been used to prepare the financial statements.

Whilst the Bank's primary purpose is serving UK businesses, the impact of the current conflict in the Ukraine, increases in global energy prices, and inflationary spiral will impact the UK economy and the markets in which we operate. The higher corporate leverage and Government deficits could mean tighter fiscal policy over the medium term following the significant stimulus that accompanied the onset of Covid 19. The Bank's conservatism in provisions and loss absorbing capacity will continue to be assessed as part of the Bank's regular stress testing exercises. Expected interest rate rises could add upside to the income growth rate outlook. Over the medium term the coronavirus is likely to become less virulent, and the risk of entrenched high inflation is expected to be mitigated through stabilisation of energy markets and resolution of the Ukrainian conflict. As part of our Going Concern assessment all the factors mentioned above have been assessed.

The Directors recognise that the current macroeconomic situation will continue to evolve, but do not believe these events will have a materially destabilising impact on the Bank's performance. This conclusion has been reached after taking account of a number of factors including: The Bank has modelled a severe but plausible downside scenario where the operating environment has unemployment and inflation increasing, and demand for finance and property prices reducing, with the addition of higher credit losses than experienced in recent years. Based on the forecasts and stresses performed, the Directors are satisfied that the Bank will have sufficient regulatory capital and liquidity for a period of at least 12 months from the date of approval of these financial statements.

- Management have already incorporated an expectation of increasing interest rates and continued economic uncertainty into the Bank's business plan. This uncertainty includes modelling the impact of the impact of the Bank of England's Annual Cyclical Scenario which tests the resilience of the UK banking system to deep simultaneous recessions in the UK and global economies.
- The Bank maintains a strong liquidity position with its Liquidity Coverage Ratio (LCR) around 3 times higher than the regulatory minimum at the end of 2021;
- All the Bank's assets that it has financed, its customers, staff, and key suppliers are UK based; and
- The Bank and its employees have successfully operated a flexible working policy over the past 2 years enabling a mix of both office and home-based working.

5 Accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed below. For each area of management judgement, along with any others which are considered material, management prepare a paper for review and approval by the Bank's Audit Committee at least once a year.

Loan loss provisioning

The Bank adopted IFRS 9 in 2018 with the provisioning methodology changed to an expected loss basis.

The Bank has made key judgements and estimates in its loan loss provisions. The key judgements are:

- The Bank's business model and its loans and advances to customers meet the SPPI (Solely Payments of Principal and Interest) criteria and therefore all loans and advances to customers are classified as financial instruments and held at amortised cost with an associated loan loss provision, as set out in Note 28.
- The Bank uses four unbiased probability weighted forward looking economic scenarios in its estimate of loan loss provisions being the base case, downside, severe downside, and upside. These scenarios and their application in the estimate of loan loss provisions are described further in Note 28.
- Significant Increase in Credit Risk ('SICR') – The criteria selected to identify a significant increase in credit risk is a key area of judgement within the Bank's ECL calculation as these criteria determine whether a 12 month or lifetime provision is recorded. The criteria has been reviewed and updated during 2021.

The two key estimates are the Probability of Default and the Loss Given Default.

All the Bank's loans and advances are allocated to a stage under IFRS 9. Stage 1 loans are loans which are performing as expected with the expected credit loss calculation based on a 12-month probability of default. Loans which have seen a significant increase in credit risk since original inception, or are over 30 days in arrears, are held in Stage 2 with the expected credit loss based on a lifetime probability of default. Loans which are considered credit impaired or in default are placed in Stage 3 with the expected credit loss calculation assuming a 100% probability of default and a lifetime loss given default applied.

For loans in stage 1 and 2 the Bank estimates the probability of default (PD) and the loss given default (LGD). The probability of default is calculated using both quantitative and qualitative data including character, property type and location. The LGD is calculated using the expected realisable collateral value and associated sales costs.

The expected credit loss (ECL) on loans in stage 3 are estimated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows across a range of economic scenarios are taken into account. These considerations can be particularly subjective and can include the business prospects for the customer, the realisable value of collateral, the reliability of customer information and the likely cost and duration of the work-out process. The level of the impairment allowance is the difference between the value of the discounted expected future cash flows (discounted at the loan's original effective interest rate), and its carrying amount. Furthermore, judgements change with time as new information becomes available or as work-out strategies evolve, resulting in frequent revisions to the impairment allowance as individual decisions are taken. Changes in these estimates would result in a change in the allowances and have a direct impact on the impairment charge.

The Bank assesses and discusses all individual customer loans in arrears at the monthly Provisions Committee meeting chaired by the CFO. All cases that have an existing specific provision, are in arrears at month-end, or are on the watch list are reviewed. The expected credit losses across all stages are adjusted for the impact of the forward-looking economic scenarios outlined above. See Note 28 for the sensitivity analysis regarding this.

Revenue recognition – effective interest rate

The Bank has made a key estimate in relation to the effective interest rate.

The key estimate relates to the expected life of each type of instrument and hence the expected cash flows relating to it. A critical estimate in determining the effective interest rate is the expected life to maturity of the Bank's commercial loans, as a change in the expected life will have an impact on the period over which the directly attributable costs and fees are recognised. See Note 6 for the sensitivity analysis regarding this.

6 Interest income and expense

In accordance with IFRS 9 interest income and expense are recognised in the Statement of Profit or Loss and Other Comprehensive Income for all instruments measured at amortised cost using the Effective Interest Rate method (EIR).

The EIR is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash flows through the expected life of the instrument, or where appropriate a shorter period, to the net carrying amount of the financial asset or the financial liability. When calculating the EIR, the Bank considers all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the EIR, transaction costs and all other premiums or discounts. In accordance with IFRS 9, the application of EIR has been applied to the gross carrying amount of non-credit impaired financial assets and to the amortised cost of credit impaired financial assets. Early Repayment Charges (ERC) are reported within the EIR expected cashflows and reported within net interest income.

Interest income and expense presented in the Statement of Profit or Loss and Other Comprehensive Income includes:

- Interest on financial assets and liabilities measured at amortised cost calculated on an EIR basis;
- Interest on fair value through other comprehensive income investment securities
- Income from finance leases and instalment credit agreements.

£'000	2021	2020
Interest income		
Loans and advances to banks	196	490
Loans and advances to customers	55,079	50,385
Investment securities	60	22
Total interest income	**55,335**	**50,897**
Interest expense		
Deposits from customers	(10,285)	(12,624)
Other	(123)	(161)
Total interest expense	**(10,408)**	**(12,785)**
Net interest income	**44,927**	**38,112**

Included within interest income for the year ended 31 December 2021 is a total of £267k (2020: £176k) relating to interest on impaired financial assets.

Management uses its judgement to estimate the expected life of each type of instrument and hence the expected cash flows relating to it. A critical estimate in determining the effective interest rate is the expected life to maturity of the Bank's commercial loans, as a change in the expected life will have an impact on the period over which the directly attributable costs and fees are recognised.

The Bank's effective interest rate is sensitive to changes in customer redemptions and the value of new lending drawn in the year. If customer redemptions increase this is likely to result in increased fee income being received in the form of early repayment charges and the acceleration of the recognition of arrangement fee income. New lending values will impact the value of loan arrangement fees to be recognised in future periods as well as being a key driver of the value of fees expected to be generated in future years from subsequent early redemptions.

The following sensitivities have been calculated to show the sensitivity of the EIR income to changes in these items:

- If the value of Real Estate Loans that had repaid in the past 12 months was 1% lower for each tranche of lending, the EIR income recognised in the Bank's profit or loss would have been £0.5m lower;
- If the Bank's new lending in 2021 had been 25% lower, the effective interest rate (EIR) income recognised in the Bank's income statement would have been £0.1m lower; and
- If the Bank's Asset Finance & CV&S loans average life was 10% shorter than the contractual term, the EIR income recognised in the Bank's income statement would have been £0.2m higher.

7 Other income

Other income includes fees and commissions relating to services provided to customers, which do not meet the criteria for inclusion within interest income. The income is recognised as the service is provided.

Other income also includes the fair value movement in derivatives held for risk management purposes. Interest rate swaps are held to hedge against fixed rate savings products. The fair value movement represents both hedge ineffectiveness and the receipt of proceeds from the early settlement of derivatives during the year.

£'000	2021	2020
Fair value movement	(2)	12
Other operating income	25	18
Total other income	**23**	**30**

8 Auditors' remuneration

The profit on ordinary activities is arrived at after charging:

£'000	2021	2020
The remuneration of the Bank's external auditors:		
Audit services		
Audit of these financial statements	542	310
Audit related assurance services		
Amounts receivable by the company's auditor and its associates in respect of:		
All other services	75	–
Total remuneration payable to the Bank's external auditors	**617**	**310**

All services undertaken by the Bank's external auditor are subject to approval by the Bank's Audit Committee. The Bank has a non-audit services policy, which states that non-audit related services provided by the Bank's external auditors should not exceed 70% of the average of the fees paid in the previous three consecutive financial years. The Bank has complied with this policy during 2021 and 2020.

9 Administrative expenses

£'000	2021	2020
Staff costs (see Note 10)	14,915	12,924
Other administrative expenses	7,050	7,312
Total	**21,965**	**20,236**

10. Staff numbers and costs

The average number of persons employed by the Bank (including directors) during the year was 183 (2020: 165). The increase in staff costs is higher than the increase in average staff numbers reflecting the timing of the recruitment of staff as well as a higher salary cost associated with these new starters and a higher value variable pay award.

The aggregate payroll costs of these persons, including directors, were as follows, (directors' remuneration is separately disclosed in Note 11):

£'000	2021	2020
Wages and salaries	12,323	10,735
Social security costs	1,569	1,197
Contributions to defined contribution pension plans	1,023	992
Total	**14,915**	**12,924**

11. Directors' remuneration

£'000	2021	2020
Directors' remuneration	2,202	2,360
Amounts receivable under long term incentive schemes	50	–
Company contributions to defined contribution pension plans	–	1
Provision for compensation for loss of office	–	109
Amounts paid to third parties in respect of Directors' services	53	52
Total	**2,305**	**2,522**

The emoluments of the highest paid director were £596k (2020: £524k). There were no amounts receivable under long-term incentive schemes (2020: nil) and no contributions (2020: nil) to a defined contribution pension plan within this total.

No contributions were made into executive directors' personal defined contribution pension plans during the year (2020: £1k), with all directors receiving a cash allowance instead. There were no directors' loans in 2021 (2020: nil).

12 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted, or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

The UK corporation tax rate of 19% (2020: 19%) has been used in the preparation of these accounts. Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

The Finance Act 2016 included a reduction in the main rate of UK corporation tax from 19% to 17% from 1 April 2020. However, in the UK budget on 11 March 2020, it was announced that the cut in the tax rate to 17% would not occur and the UK Corporation Tax Rate would instead remain at 19%. Subsequently, in the March 2021 Budget it was announced that legislation will be introduced in Finance Bill 2021 to increase the main rate of UK corporation tax from 19% to 25%, effective 1 April 2023. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. As the Finance Bill 2021 was substantively enacted by the balance sheet date, deferred tax balances on timing differences as at 31 December 2021 have been measured at 25% (2020: 19%).

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that is has become probable that future taxable profits will be available against which they can be used. The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

£'000	2021	2020
Current tax expense		
In respect of the current year	3,227	1,783
In respect of prior years	(62)	(18)
	3,165	**1,765**
Deferred tax expense		
Origination and reversal of temporary differences	70	75
Adjustments in respect of prior periods	15	8
Effect of tax rate change on opening balance	(226)	(85)
	(141)	**(2)**
Total income tax expense	**3,024**	**1,763**

The income tax expense for the year can be reconciled to the accounting profit as follows:

£'000	2021	2020
Profit before tax from continuing operations	18,490	11,161
Income tax expense calculated at 19% (2020: 19%)	3,513	2,120
Effects of:		
Convertible loan note interest payment	(244)	(274)
Expenses not deductible for tax purposes	3	5
Deferred tax charged directly to equity	(90)	–
Adjustments in respect of previous periods	(49)	(9)
Timing differences	67	–
Tax rate changes	(186)	(85)
Non-Qualifying Depreciation	10	6
Total tax charge 19% (2020: 19%)	**3,024**	**1,763**

Deferred tax

Deferred tax assets are attributable as follows:

The Bank had a deferred tax asset of £775k at 31 December 2021 (2020: £725k) resulting primarily from the original adoption of IFRS accounting standards in 2015, and more recently IFRS 9. The business plan projects profits in future years sufficient to recognise this asset.

£'000	Balance Sheet		Movement in period	
	2021	2020	Income	Equity
Deferred tax liability				
Plant, Property & Equipment (PPE) and intangible assets	(18)	(2)	(16)	–
Total liabilities	(18)	(2)	(16)	–
Deferred tax asset				
Deductible temporary differences	–	–	–	–
Pension and other remuneration benefits	163	65	98	–
IFRS 9 transitional relief	545	483	62	–
Other	180	184	(4)	–
Total Assets	888	732	156	–
Deferred tax on FVOCI				
FVOCI instruments	(95)	(5)	–	(90)
Net deferred tax asset	**775**	**725**	**140**	**(90)**

13 Cash and cash equivalents

Cash and cash equivalents include notes and coins in hand, unrestricted balances held with central banks, and highly liquid financial assets with original maturities of three months or less from the date of acquisition, that are subject to an insignificant risk of change in their fair value and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

£'000	2021	2020
Unrestricted balances with central banks*	240,158	190,962
Cash and balances with other banks	12,293	9,687
Total	**252,451**	**200,649**

*Included within the unrestricted balances with central banks is £24k of accrued interest for 2021 (2020: £8k)

14 Loans and advances to banks

Loans and advances to banks are measured at amortised cost as the Bank holds these assets for the objective of collecting contractual cash flows, and the cash flows associated with the assets include only payments of principal and interest (SPPI). As with loans and advances to customers (Note 15), the Bank has assessed whether there are any contractual terms which may cause the financial assets to fail the SPPI test. The Bank has noted no such terms. The Bank does not incur any transactional or other such integral fees which require an effective interest rate to be specifically calculated for these assets. Income is recognised at the contractual interest rate on an accruals basis.

£'000	2021	2020
Gross loans and advances to banks	12,293	9,687
Net loans and advances to banks	**12,293**	**9,687**

15 Loans and Advances to customers

Loans and advances to customers are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost, using the effective interest method.

The Bank has measured its loans and advances to customers at amortised cost on the basis that the Bank holds these assets for the objective of collecting contractual cash flows, and the cash flows associated with the assets include only payments of principal and interest (SPPI).

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money for the credit risk associated with the principal amount outstanding during a particular period and for other basic lending risks and costs, as well as a profit margin.

In making this assessment the Bank has considered whether the financial asset contains a contractual term that could change the timing or amount of contractual cashflows such that it would not meet this condition. All the Bank's loans contain prepayment features. A prepayment feature is consistent with the SPPI criteria if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

Gross loans and advances is net of an EIR liability of £4.1m (2020: £3.1m).

£'000	2021	2020
Gross loans and advances	992,600	840,831
Less: allowance for impairment losses (see Note 16)	(14,766)	(12,451)
Net loan receivables	**977,834**	**828,380**

Gross loans and advances to customers includes Hire Purchase and Finance Lease agreements. The table below shows the timing of the expected cashflows on these agreements.

£'000	2021	2020
Gross investment in finance lease receivables*:		
Less than one year	29,317	21,686
1 – 2 Years	23,903	17,260
2 – 3 Years	17,906	15,081
3 – 4 Years	13,123	9,941
4 – 5 Years	9,739	7,069
More than five years	10,756	8,935
Total	**104,744**	**79,972**
Unearned future finance income on finance charges	(13,900)	(11,440)
Net investment in finance leases	**90,844**	**68,532**
The net investment in finance leases may be analysed as follows:		
Less than one year	24,500	17,731
Between one and five years	56,635	42,685
More than five years	9,709	8,116
	90,844	**68,532**

*Excludes effective interest rate

16 Allowance for impairment losses

A description of the Bank's credit risk management and methodology in respect of allowances for impairment losses is provided below in Note 28. This Note also includes the sensitivity of the Bank's impairment losses to changes in its forward-looking economic scenarios. The tables below set out the Bank's provisions by IFRS 9 stage as well as a reconciliation of the opening to the closing allowance for impairment losses on loans and advances to customers.

£'000	Not credit impaired		Credit impaired	
	Stage 1: subject to 12-month ECL	**Stage 2:** subject to lifetime ECL	**Stage 3:** subject to lifetime ECL	**Total**
Real Estate Finance	2,972	4,489	3,993	11,454
Asset Finance	360	378	259	997
At 31 December 2020	**3,332**	**4,867**	**4,252**	**12,451**
Real Estate Finance	2,277	5,793	5,766	13,836
Asset Finance	559	161	210	930
At 31 December 2021	**2,836**	**5,954**	**5,976**	**14,766**

Impairment provision movement 2021 £'000	**Stage 1:** subject to 12-month ECL	**Stage 2:** subject to lifetime ECL	**Stage 3:** subject to lifetime ECL	**Total**
Closing Balance at 31 December 2021	2,836	5,954	5,976	14,766
Opening Balance at 1 January 2021	3,332	4,867	4,252	12,451
Increase (decrease) in provision	**(496)**	**1,087**	**1,724**	**2,315**
Increase (decrease) in provision				
New loans originated	942	296	–	1,238
Derecognised loans	(424)	(448)	(288)	(1,160)
Loan commitments	148	–	–	148
Allowance utilised in respect of write-offs	–	(61)	(840)	(901)
Transfers between Stages and increase in credit risk				
– Transfers from Stage 1	(326)	325	1	–
– Transfers from Stage 2	1,889	(2,184)	295	–
– Transfers from Stage 3	56	114	(170)	–
– Increase in credit risk	(2,781)	3,045	2,726	2,990
	(496)	**1,087**	**1,724**	**2,315**
P&L charge				
Increase (decrease) in provision	(496)	1,087	1,724	2,315
Write-offs	104	31	1,343	1,478
P&L impairment charge	**(392)**	**1,118**	**3,067**	**3,793**
Income Adjustment*	–	–	(267)	(267)
Non customer lending related post write-off recoveries	–	–	(2)	(2)
Total P&L impairment charge	**(392)**	**1,118**	**2,798**	**3,524**

* Interest originally charged on the gross carrying amount for credit impaired stage 3 assets which has subsequently been recalculated on the net carrying amount. This resulted in a reduced interest income and impairment charge in the income statement of £267k.

Impairment provision movement 2020 £'000	Stage 1: subject to 12-month ECL	Stage 2: subject to lifetime ECL	Stage 3: subject to lifetime ECL	Total
Closing Balance at 31 December 2020	3,332	4,867	4,252	12,451
Opening Balance at 1 January 2020	3,423	1,303	3,455	8,181
Increase (decrease) in provision	**(91)**	**3,564**	**797**	**4,270**
Increase (decrease) in provision				
New loans originated	1,231	279	–	1,510
Derecognised loans	(356)	(57)	(409)	(822)
Loan commitments	95	–	–	95
Allowance utilised in respect of write-offs	(56)	(18)	(1,464)	(1,538)
Transfers between Stages and increase in credit risk				
– Transfers from Stage 1	(1,084)	1,075	9	–
– Transfers from Stage 2	25	(480)	455	–
– Transfers from Stage 3	–	94	(94)	–
– Increase in credit risk	54	2,671	2,300	5,025
	(91)	**3,564**	**797**	**4,270**
P&L charge				
Increase (decrease) in provision	(91)	3,564	797	4,270
Write-offs	72	108	1,542	1,722
Income Adjustment*	–	–	(176)	(176)
Non customer lending related post write-off recoveries	–	–	(3)	(3)
Total P&L impairment charge	**(19)**	**3,672**	**2,160**	**5,813**

* Interest originally charged on the gross carrying amount for credit impaired stage 3 assets which has subsequently been recalculated on the net carrying amount. This resulted in a reduced interest income and impairment charge in the income statement of £176k.

Gross loan balances by Stage 2021 £000	Stage 1: subject to 12-month ECL	Stage 2: subject to lifetime ECL	Stage 3: subject to lifetime ECL	Total
Closing Balance at 31 December 2021	848,077	115,948	28,575	992,601
Opening Balance at 1 January 2021	625,510	182,749	32,572	840,831
Increase (decrease) in loan balances	**222,567**	**(66,801)**	**(3,997)**	**151,770**
Increase (decrease) in loan balances				
New loans originated	299,081	8,002	–	307,083
Derecognised loans	71,769	30,778	3,799	106,345
Allowance utilised in respect of write-offs	141	753	3,334	4,229
Transfers between Stages and increase in credit risk				
– Transfers from Stage 1	61,057	60,286	771	–
– Transfers from Stage 2	94,704	101,385	6,681	–
– Transfers from Stage 3	772	494	1,266	–
– Increase in credit risk	39,023	2,667	3,050	44,739
	222,567	**(66,801)**	**(3,997)**	**151,770**

Gross loan balances by Stage 2020 £000	Stage 1: subject to 12-month ECL	Stage 2: subject to lifetime ECL	Stage 3: subject to lifetime ECL	Total
Closing Balance at 31 December 2020	625,510	182,749	32,572	840,831
Opening Balance at 1 January 2020	703,704	38,948	27,032	769,684
Increase (decrease) in loan balances	**(78,194)**	**143,801**	**5,540**	**71,147**
Increase (decrease) in loan balances				
New loans originated	187,490	13,824	–	201,314
Derecognised loans	(95,690)	(1,205)	(1,908)	(98,803)
Allowance utilised in respect of write-offs	(102)	(272)	(5,357)	(5,731)
Transfers between Stages and increase in credit risk				
– Transfers from Stage 1	(152,421)	150,915	1,506	–
– Transfers from Stage 2	470	(13,476)	13,006	–
– Transfers from Stage 3	–	1,325	(1,325)	–
– Increase in credit risk	(17,941)	(7,310)	(382)	(25,633)
	(78,194)	**143,801**	**5,540**	**71,147**

£'000	Gross loan balance			Expected Credit Loss (ECL)			Net balance			
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Total
Real Estate Finance	560,875	178,145	32,017	2,972	4,489	3,993	557,903	173,657	28,023	759,583
Asset Finance	64,635	4,604	555	360	378	259	64,275	4,226	296	68,797
At 31 December 2020	**625,510**	**182,749**	**32,572**	**3,332**	**4,867**	**4,252**	**622,178**	**177,883**	**28,319**	**828,380**
Real Estate Finance	758,879	113,270	28,334	2,277	5,793	5,766	756,602	107,477	22,568	886,647
Asset Finance	89,198	2,678	241	559	161	210	88,639	2,517	31	91,187
At 31 December 2021	**848,077**	**115,948**	**28,575**	**2,836**	**5,954**	**5,976**	**845,241**	**109,994**	**22,849**	**977,834**

	2021				2020			
	Stage 1	Stage 2	Stage 3	**Total**	Stage 1	Stage 2	Stage 3	**Total**
Loan loss coverage ratio %	0.3%	5.1%	20.9 %	**1.5%**	0.5%	2.7%	13.1%	**1.5%**

17 Debt securities

Under IFRS 9 the Bank's debt securities are measured at fair value through other comprehensive income.

The Bank's debt securities are initially recognised at fair value and subsequently measured at fair value through other comprehensive income. The instruments meet the SPPI criteria but as the assets are in a Held To Collect and Sell Business Model they are recorded at Fair Value with changes recorded through Other Comprehensive Income (OCI).

Changes in the fair value of debt securities are recognised in other comprehensive income and presented in the fair value through other comprehensive income reserve. When the debt security is sold or matures, the gain or loss accumulated in equity, together with the tax thereon, is reclassified to the income statement.

In December 2021 the Bank purchased a security with a nominal value of £7m to replace a similar investment that had matured. The value of the Bank's debt securities includes a provision of £31k (2020: £31k).

£'000	2021	2020
European Investment Bank bond (EIB)	17,184	17,770
International Bank Reconstruction & Development bond (IBRD)	19,953	20,274
Total	**37,137**	**38,044**

18 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant, and equipment.

Leases in which the Bank assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases and are stated at the amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item. The estimated useful lives are as follows:

- Leasehold properties — Head Office 15 years
- Computer hardware — 1 to 5 years
- Fixtures and fittings — 3 to 10 years

The Bank's depreciation methods, useful lives, and residual values are reviewed at each balance sheet date.

£'000	Property lease	Computer hardware	Fixtures and fittings	Total
Cost				
Balance at 1 January 2021	2,216	554	1,060	3,830
Additions	–	97	–	97
Balance at 31 December 2021	**2,216**	**651**	**1,060**	**3,927**
Depreciation				
Balance at 1 January 2021	261	359	276	896
Charge for the year	186	107	151	444
Balance at 31 December 2021	**447**	**466**	**427**	**1,340**
Net book value				
At 1 January 2021	1,955	195	784	2,934
At 31 December 2021	**1,769**	**185**	**633**	**2,587**

19 Intangible assets

Intangible assets that are acquired by the Bank are stated at cost less accumulated amortisation and impairment losses. Expenditure on computer software development is capitalised if the product or process is technically and commercially feasible, future economic benefits are probable, and the Bank can reliably measure the expenditure attributable to the intangible asset during its development. The capitalised expenditure includes the cost of direct labour and software licence costs. Capitalised developments are stated at cost less accumulated amortisation.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful life of capitalised software development costs is 3 to 5 years.

Intangible assets include assets totalling £52k which were in the course of construction at the 31 December 2021 (2020: £280k).

£'000	Computer software
Cost	
Balance at 1 January 2021	3,618
Additions	549
Balance at 31 December 2021	**4,167**
Amortisation	
Balance at 1 January 2021	2,051
Amortisation for the year	527
Balance at 31 December 2021	**2,578**
Net book value	
At 1 January 2021	1,567
At 31 December 2021	**1,589**

20 Other assets

£'000	2021	2020
Other debtors	132	105
Cash Ratio Deposit	1,205	672
Prepayments	754	654
Total	**2,091**	**1,431**

The Bank is required to hold a Cash Ratio Deposit by the Bank of England. This is calculated twice yearly at 0.18% of average eligible liabilities over the previous six months in excess of £600m.

21 Derivatives held for risk management

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivative financial instruments are recognised at fair value. As at 31 December 2021, the Bank had £21m nominal value of derivatives (2020: £23m), all related to the hedging of fixed rate deposit balances.

	Nominal value		Fair value	
£'000	2021	2020	2021	2020
Instrument type				
Interest rate	21,000	23,000	(254)	9
Designated in fair value hedges	–	–	–	–
Total interest rate derivatives	**21,000**	**23,000**	**(254)**	**9**

Under IFRS 9 the Bank is not required to undertake a monthly retrospective test for hedge effectiveness as it can demonstrate the critical terms of the hedge instrument and the hedged item are matched.

On initial designation of the hedge, the Bank formally documents the relationship between the hedging instruments and the hedged items, including the risk management objective, together with the method that will be used to assess the effectiveness of the hedging relationship. The Bank makes an assessment, at inception of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the hedged items during the period in which the hedge is designated. On a monthly basis the Bank must be able to continue to demonstrate that the critical terms of the derivative and the hedged item continue to be closely aligned in order to conclude that the relationship remains highly effective.

All the Bank's hedging relationships are currently fair value hedges.

Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability, or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in the income statement. To the extent to which the hedge is effective, the carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on measurement are recognised immediately in the income statement (even if those gains would normally be recognised directly in reserves).

On the discontinuance of a hedge, any adjustment made to the carrying amount of the hedged item as a consequence of the fair value hedge relationship, is recognised in the income statement over the remaining life of the hedged item.

The Bank uses interest rate swaps to minimise interest rate risk exposure in specific periods by hedging the interest rate risk associated with fixed rate deposit balances. The terms of the hedged items and hedging instrument are aligned to minimise hedge ineffectiveness arising. Hedge ineffectiveness, the difference between the hedging gains or losses of the hedging instrument and the hedged item recognised in the income statement was £2k (2020: £1k).

Fair value hedges of interest rate risk £'000	2021		2020	
Instrument type:	Assets	Liabilities	Assets	Liabilities
Interest rate	–	254	9	–
Total	**–**	**254**	**9**	**–**

The fair value of the Bank's derivatives in place at the year-end was a liability of £254k, compared to an asset of £9k in 2020.

Credit risk derivative risk management

The Bank mitigates the credit risk of derivatives by entering into transactions under International Swaps and Derivatives (ISDA) master netting agreements. The Bank has executed a Credit Support Annex (CSA) in conjunction with the ISDA agreement, which requires the Bank and its counterparty (NatWest Markets PLC) to post collateral to mitigate counterparty credit risk in the event of specific triggers being met.

Type of credit exposure	% of exposure that is subject to collateral requirements		Principal type of collateral	Collateral received/given
	2021	2020		
Derivatives held for risk management	100%	100%	Cash	£280k

The following table sets out the Bank's financial assets and financial liabilities that are subject to an enforceable master netting arrangement, irrespective of whether they are offset in the statement of financial position. The values reflect the instruments fair value. The Bank's ISDA does not meet the criteria for offsetting in the statement of financial position. This is because it creates a right of set-off of recognised amounts that is only enforceable following a predetermined event.

Cash is pledged and received as collateral against derivative contracts which are used by the Bank to manage its exposure to market risk. Collateral is pledged to derivative contract counterparties where there is a net amount outstanding to the counterparty, and collateral is received from derivative contract counterparties where there is a net amount due to the Bank. All derivatives are marked to market on a daily basis, with collateral pledged or received if the aggregate mark to market valuation exceeds the CSA variation margin threshold. The Bank's derivative contracts have an outstanding contractual period of up to 5 years (2020:2 years).

At 31 December 2021 the Bank had pledged £280k (2020: nil) of collateral, which is included in the total loans and advances to banks category on the balance sheet.

£'000				Related amounts not offset in the statement of financial position		
Type	Gross amounts of recognised financial assets	Gross amounts of financial liabilities offset in the statement of financial position	Net amounts of financial liabilities in the statement of financial position	Financial instruments liabilities	Cash collateral received	Net amount
2021						
Derivatives held for risk management						
Assets	–	–	–	–	–	–
Liabilities	–	254	–	–	–	254
2020						
Derivatives held for risk management						
Assets	9	–	–	–	–	9
Liabilities	–	–	–	–	–	–

22 Deposits from customers

IFRS 9 stipulates that all financial liabilities be classified at amortised cost, except for those recognised at fair value through profit or loss (including derivative contracts). This includes:

- financial liabilities which have been designated as FVTPL on the basis that this provides more relevant financial information;
- Financial liabilities which arise when a transfer of a financial asset do not qualify for derecognition (or when the continuing involvement approach applies);
- Financial guarantee contracts;
- Commitments to provide a loan at a below market rate of interest; or
- Contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies.

The Bank has assessed all financial liabilities to classify and measure them appropriately. As with financial assets, financial liabilities are initially measured at their fair value, plus or minus any transaction costs which are directly attributable to the financial liability.

In respect of Customer Deposits, the Bank classifies its customer deposits as being held at amortised cost, which is consistent with the criteria outlined above.

The Bank pays commission to certain brokers in respect of its deposit accounts. The commission is charged as a percentage of the customer balance and is recognised within interest payable.

Deposits are the Bank's primary source of debt funding. The Bank hedges interest rate risk arising from its fixed rate deposit balances. As at 31 December 2021 £21m (2020: £23m) of the Bank's fixed rate deposits are hedged using interest rate derivatives. These deposits are held at amortised cost but a fair value adjustment is applied in respect of the hedged risk.

£'000	2021	2020
Instant access	77,309	52,259
Term and notice accounts		
Payable within 1 year	801,011	771,037
Payable after one year	147,453	93,912
Total	**1,025,773**	**917,208**
Fair value adjustment for hedged risk	(253)	7
Total deposits from customers	**1,025,520**	**917,215**

£'000	2021	2020
Variable rate deposit balances	658,229	590,652
Fixed rate deposit balances	367,544	326,556
Total	**1,025,773**	**917,208**
Fair value adjustment for hedged risk	(253)	7
Total deposits from customers	**1,025,520**	**917,215**

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23 Central Bank Facilities

During the year, the Bank has utilised facilities provided by the Bank of England through its Sterling Monetary Framework. These facilities enable either funding or off-balance sheet liquidity to be provided on the security of designated pools of the Bank's customer loans and advances and debt securities with the amount available based on the value of the security given, subject, where appropriate, to a haircut. Drawings under the Term Funding Scheme for SMEs ('TFSME') have a maturity of four years and bear interest at BBR. The remaining maturity of the Bank's drawings is 45 months. As these drawings were provided at rates below those available commercially, by a government agency, they were accounted for under IAS 20. Of the £78m drawn, £2.4m relates to deferred government assistance.

Drawings under the Funding for Lending Scheme ('FLS') were used to provide off balance sheet liquidity and formed part of the Bank's High Quality Liquid Assets ('HQLA'). Fees were charged under the FLS at 0.25% of the market value of the liquidity drawn. The £57m outstanding drawings at 31 December 2020 were repaid in 2021.

Further loan assets of the Bank have been pre-positioned with the Bank of England for future use in Sterling Monetary Schemes (note 28).

£'000	2021		2020	
	On balance sheet	Off-balance sheet	On balance sheet	Off-balance sheet
TFSME	78,000	–	–	–
FLS	–	–	–	57,000
Total	**78,000**	**–**	**–**	**57,000**

24 Other liabilities

£'000	2021	2020
Accruals	4,284	3,407
Lease liability	2,056	2,202
Other creditors	940	1,302
Total	**7,280**	**6,911**

See Note 29 for more details on the lease liability.

25 Capital and reserves

Share capital

	£'000		No. of shares (000)	
	2021	2020	2021	2020
Ordinary shares of £1 each authorised, issued and fully paid				
1 January	44,955	44,955	44,955	44,955
Shares issued during the year	–	–	–	–
31 December	**44,955**	**44,955**	**44,955**	**44,955**
Perpetual subordinated contingent convertible loan notes				
1 January	22,900	22,900	22,900	22,900
Authorised notes issued during the year	–	–	–	–
Fully paid notes as at 31 December	**22,900**	**22,900**	**22,900**	**22,900**

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. During the year there were no new shares authorised or issued (2020: nil). There were no new issues of any convertible loan notes (2020: nil).

Dividends on ordinary shares are recognised in equity in the period in which they are approved by shareholders. No ordinary share dividends were paid in 2021 (2020: nil).

Cambridgeshire Local Government Pension Scheme holds the perpetual subordinated contingent convertible loan notes. Interest on these securities is due and payable only at the sole discretion of the Board.

Fair value through other comprehensive income reserve (FVOCI reserve)

The FVOCI reserve includes the cumulative net change in the fair value of financial assets until the investment is derecognised or impaired. The decrease in 2021 reflects the impact of the maturity of one security and the purchase of a new longer-term instrument.

£'000	2021	2020
FVOCI reserve as at 31 December	26	2
FVOCI financial assets – net change during the year	(411)	29
Related tax	(90)	(5)
FVOCI reserve as at 31 December	**(475)**	**26**

Convertible loan note interest payments

The following convertible loan note interest payments were recognised as distributions to owners during the year ended 31 December:

£'000	2021	2020
Convertible loan note interest 5.602 pence per loan note (2020: 6.288 pence per loan note)	1,283	1,440
Total	**1,283**	**1,440**

26 Employee benefits

Defined contribution pension plans

The defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

The Bank operates a defined contribution Personal Pension Scheme, which is provided by Royal London Mutual Insurance Society Limited and contributes to the personal pension plans of certain employees. The pension cost for the year represents the contributions payable by the Bank under these arrangements and amounted to £1,023k (2020: £992k). There was an outstanding contribution due of £2k (2020: £23k) at the end of the year.

27 Financial instruments and fair values

The Bank has set out in notes 22, 27, and 28, how it classifies financial assets and liabilities under IFRS 9. The following table summarises the classification and carrying amounts of the Bank's financial assets and liabilities:

2021 £'000	Amortised cost	At fair value through other comprehensive income	At fair value through profit or loss	Liabilities at amortised cost	Total
Cash & balances at central banks	240,158	–	–	–	240,158
Loans and advances to banks	12,293	–	–	–	12,293
Debt securities	–	37,137	–	–	37,137
Loans and advances to customers	977,834	–	–	–	977,834
Total	**1,230,285**	**37,137**	**–**	**–**	**1,267,422**
Customers' accounts	–	–	(253)	1,025,773	1,025,520
Derivatives	–	–	254	–	254
Total	**–**	**–**	**1**	**1,025,773**	**1,025,774**

2020 £'000	Amortised cost	At fair value through other comprehensive income	At fair value through profit or loss	Liabilities at amortised cost	Total
Cash & balances at central banks	190,962	–	–	–	190,962
Loans and advances to banks	9,687	–	–	–	9,687
Derivatives	–	–	9	–	9
Debt securities	–	38,044	–	–	38,044
Loans and advances to customers	828,380	–	–	–	828,380
Total	**1,029,029**	**38,044**	**9**	**–**	**1,067,082**
Customers' accounts	–	–	7	917,208	917,215
Total	**–**	**–**	**7**	**917,208**	**917,215**

Derecognition

The following sets out how the Bank derecognises assets and liabilities and fair values its assets in accordance with IFRS 9:

- **Derecognition of financial assets**

The Bank derecognises a financial asset only when the contractual rights to the associated cash flows expire, or the Bank transfers the financial asset, and the transfer qualifies for derecognition in accordance with the provisions set out in IFRS 9. To qualify for a transfer, the Bank must meet either of the following:

– The contractual right to receive the cash flows of the financial asset have been transferred; or

– The contractual right to receive the cash flows of the financial asset is retained by the Bank, but the Bank also assumes a contractual obligation to pay the cash flows to one or more recipients.

In respect of point 2 above, the Bank assesses whether the following three conditions are all met before treating the financial asset as having been derecognised:

– The Bank assumes no obligation to pay amounts to the eventual recipients unless those amounts have been collected from the original financial asset;

– The Bank is prohibited under the terms of the transfer contract from selling or pledging the original asset, other than as security to the recipients of the cash flows; and

– The Bank has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. The Bank may also not reinvest any such cash flows received.

Where the above criteria are met, and a transfer is deemed to have occurred, the Bank evaluates the extent to which it retains the risk and rewards of ownership of the financial asset. Where the Bank determines that the risk and reward of ownership of the assets has been transferred, the Bank derecognises the asset. If the Bank determines that the risk and reward remains with them, the asset is not derecognised and remains on the statement of financial position.

On derecognition of the financial asset, the Bank recognises the difference between the carrying amount of the asset and the consideration received in the income statement.

- **Derecognition of financial liabilities**

The Bank derecognises a financial liability only when the obligation, which is specified in the contract, has been discharged, is cancelled, or expires. The Bank may also be required to derecognise a financial liability where there has been a substantial modification. A modification is considered to be substantial where the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

Fair value

Fair value of financial assets and financial liabilities are based on quoted market prices. If the market is not active, the Bank establishes a fair value by using appropriate valuation techniques.

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

– Level 1: quoted prices in active markets for identical assets or liabilities;

– Level 2: inputs other than quoted prices included within level 1 that are observable either directly (e.g. prices) or indirectly (e.g. derived from prices); and

– Level 3: inputs for the asset or liability that are not based on observable market data.

Key considerations in the calculation of the disclosed fair values for those financial assets carried at amortised cost include the following:

– Cash and balances at central banks

These represent amounts with an initial maturity of less than 3 months and their carrying value is considered to be the fair value.

– Loans and advances to banks

These represent amounts with a maturity of less than 3 months, where adjustments to fair value in respect of the credit rating of the counterparty are not considered necessary. The carrying value of the asset is considered to be the fair value.

– Loans and advances to customers

In both the Bank's Real Estate and Asset Finance portfolios, each loan is individually priced based on the circumstances and credit quality of the customer. The Bank's policies in this area have not markedly changed and therefore the fair value of each portfolio is not considered to be materially different to book value.

– Customers' accounts

Customers' accounts at variable rates are at current market rates and therefore the Bank regards the fair value to be equal to the carrying value. The fair value of fixed rate customers' accounts that have been designated as hedged with interest rate derivatives have been determined by discounting estimated future cash flows based on future market interest rates. The fair value of unhedged fixed rate deposits has been determined by discounting the estimated future cash flows based on the existing product rate compared to current market rates for an equivalent deposit.

– Debt securities

Where securities are actively traded in a recognised market, with available and quoted prices, these have been used to value these instruments. These securities are therefore regarded as having level 1 fair values.

– Derivatives

The fair value of derivative assets and liabilities are calculated based on the present value of future interest cash flows, discounted at the market rate of interest at the balance sheet date. The Bank has not been required to post any collateral in respect of its derivatives. Derivative financial assets and liabilities are classified at fair value through the income statement.

The fair values of all financial assets and financial liabilities by class, together with their carrying amounts, and fair value valuation level are as shown in the following table:

£'000	2021 Level 1 Carrying amount	Level 1 Fair value	Level 2 Carrying amount	Level 2 Fair value	Level 3 Carrying amount	Level 3 Fair value
Financial Assets						
Cash & balances at central banks	240,158	240,158	–	–	–	–
Loans and advances to banks	–	–	12,293	12,293	–	–
Debt securities	37,137	37,137	–	–	–	–
Loans and advances to customers	–	–	–	–	977,834	978,084
Financial Liabilities						
Customers' accounts	–	–	–	–	1,025,773	1,025,091
Derivatives	–	–	254	254	–	–

£'000	2020 Level 1 Carrying amount	Level 1 Fair value	Level 2 Carrying amount	Level 2 Fair value	Level 3 Carrying amount	Level 3 Fair value
Financial Assets						
Cash & balances at central banks	190,962	190,962	–	–	–	–
Loans and advances to banks	–	–	9,687	9,687	–	–
Debt securities	38,044	38,044	–	–	–	–
Loans and advances to customers	–	–	–	–	828,380	828,380
Derivatives	–	–	9	9	–	–
Financial Liabilities						
Customers' accounts	–	–	–	–	917,215	919,519

- The fair values of the Bank's debt securities (EIB and IBRD bonds) are based on quoted bid prices in active markets.
- The fair value of derivative assets and liabilities are determined using widely recognised valuation models for determining the fair values of interest rate swaps.

There have been no transfers between levels in 2021 or 2020.

28 Financial risk management

A key component of the Bank's business is the effective management of risk in order to ensure that the Bank maintains sufficient capital, liquidity and controls at all times and acts in a reputable way, taking into account the interests of customers, Regulators and shareholders. The principal risks the Bank is exposed to include:

- **Credit risk**
  - loans and advances to customers;
  - loans and advances to banks and debt securities;
- **Liquidity risk;**
- **Market risk;**
- **Operational risk; and**
- **Capital adequacy.**

The Bank's Enterprise Risk Management Framework and Risk Appetite are set out in the Risk Management section of the report.

- **Credit risk**
  - loans and advances to customers

Credit risk is the risk of financial loss to the Bank if a customer with a financial instrument fails to meet its contractual obligations.

The credit risks associated with lending are managed using detailed lending policies which outline the Bank's approach to lending, underwriting criteria, credit mandates, concentration limits and product terms. The Bank seeks to mitigate credit risk by focusing on business sectors where it has specific expertise, and through limiting concentrated exposures on larger loans, certain sectors and other factors that can represent higher risk. The Bank also seeks to obtain security cover and where appropriate, personal guarantees from borrowers. Credit risk is principally assessed through the manual underwriting of all transactions.

The Board Risk & Compliance Committee has oversight responsibility for credit risk.

Credit exposure

The Bank's maximum exposure to credit risk after provisions for impairment is as follows:

£'000	2021	2020
Cash and balances at central banks	240,158	190,962
Loans and advances to banks	12,293	9,687
Debt securities	37,137	38,044
Loans and advances to customers*	992,601	840,831
	1,282,189	1,079,524
Commitments to lend**	111,513	68,808
Gross credit risk exposure	**1,393,702**	**1,148,332**
Less allowance for impairment losses	(14,766)	(12,451)
Net credit risk exposure	**1,378,936**	**1,135,881**

* Net of Effective Interest Rate liability of £4.1m (2020: £3.1m).
** Commitments to lend represent agreements entered into but not advanced as at 31 December.

The above table represents the maximum credit risk exposure to the Bank at 31 December 2021, and 2020, without taking account of any underlying security. At 31 December 2021 the value of securities held as collateral against drawn loans and advances to customers is £1,792m (2020: £1,490m) of which £1,699m (2020: £1,420m) is in the form of property, £92m (2020: £69m) in the form of assets owned by the Bank and financed by customers using hire purchase and finance leases, and £1.3m (2020: £1.1m) is in the form of cash deposits.

Credit risk management

The Bank specialises in providing lending to Small and Medium Enterprises (SMEs). Its lending is secured on property. The Bank lends to owner occupied businesses to invest in their own commercial premises, as well as to experienced commercial and residential property investors. The Bank also has a growing asset finance business providing finance to SMEs for business-critical assets and Classic and Sports Vehicles through hire purchase and finance lease facilities. At 31 December 2021, the Bank's asset finance loan portfolio totalled £92m (2020: £69m).

Credit risk is managed in accordance with lending policies, the Board's risk appetite, and risk management framework. Lending policies and performance against risk appetite are reviewed regularly. All applications are reviewed and assessed by a team of experienced underwriters.

All properties are individually valued at origination, and regular reports are produced to ensure the property continues to represent suitable security throughout the life of the loan. Affordability assessments are also performed on all loans, and other forms of security are often obtained, such as personal guarantees.

Real Estate Loans are secured on properties solely located in the UK, concentration risks are monitored, and credit exposures are diversified by sector and geography.

The Bank retains the ownership of all assets financed by hire purchase and finance leases.

Concentration of credit risk

The Bank monitors concentration of credit risk by product type, borrower type, geographic location and loan size.

Lending by product and type %	2021	2020
Commercial Real Estate Lending		
Residential	33%	35%
Commercial	55%	53%
Other	3%	4%
Asset Finance	5%	5%
Classic Vehicles and Sports	4%	3%
Total	**100%**	**100%**

The Bank's lending real estate portfolio is geographically diversified across the UK:

Region	2021	2020
East Anglia	2%	1%
East Midlands	15%	18%
Greater London	4%	3%
North East	4%	4%
North West	20%	20%
Scotland	7%	6%
South East	9%	8%
South West	5%	5%
Wales	7%	8%
West Midlands	8%	8%
Yorkshire/Humberside	19%	19%
Total	**100%**	**100%**

The Bank's total lending portfolio (by number of accounts) falls into the following concentration by loan size:

Loan size	2021	2020
0 – £250k	61%	65%
£251k – £500k	18%	17%
£501k – £1,000k	11%	9%
£1,001k – £3,000k	8%	7%
£3,001k+	2%	2%
Total	**100%**	**100%**

LTV banding

The Bank's real estate lending balances falls into the following LTV bandings:

LTV banding	2021	2020
0 – 50%	29%	26%
51 – 60%	30%	29%
61 – 70%	38%	42%
71 – 80%	2%	2%
81+%	1%	1%
Total	**100%**	**100%**

Credit risk – security

The Bank enters into loan agreements with customers, and where appropriate takes security. The security profile of the loan's receivable book is shown below:

	2021		2020	
	£m	%	£m	%
Secured on property	901	91	772	92
Secured on other assets	92	9	69	8
Total	**993**	**100**	**841**	**100**

In addition to security over property, the Bank may also take additional security in the form of Director Guarantees and cash deposits. Collateralised deposits at the end of 2021 totalled £1.3m (2020: £1.1m).

Credit risk – allowance for impairment losses

(see also Note 16)

The Bank uses a forward-looking 'expected credit loss' (ECL) model to assess its credit risk. This requires considerable management judgement over how changes in economic factors affect ECLs, which are determined on a probability-weighted basis.

As the Bank has to date incurred limited arrears and losses in its initial nine years of trading, it has had to use significant management judgement in calibrating the weightings and values. Over time as the Bank obtains more performance data, it will continue to develop its models and incorporate this performance data into them.

The payment status of the Bank's loans and advances are a key driver of the Bank's provisioning requirements. The table below provides information on the payment due status of loans and advances to customers as at 31 December:

£'000	2021	2020
Neither past due nor impaired	952,078	802,726
Past due but not impaired:		
Up to 3 payments missed	11,947	5,533
Default – inc. credit impaired and IFRS Stage 3 loans	28,575	32,572
Total	992,600	840,831
Less allowances for impairment losses	(14,766)	(12,451)
Total loans and advances to customers	**977,834**	**828,380**

Expected credit loss recognition

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECL, or lifetime ECL. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument (in the Bank's case for customer loans and advances this is the same average life assumption as used for its effective interest rate calculation), whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12-month period after the reporting date, based on the estimated loss curve.

In respect of real estate lending, the Bank recognises loss allowances at an amount equal to lifetime ECL, except where the credit risk has not increased significantly since initial recognition and repayments are fully up to date. For these, the amount recognised will be 12-month ECL.

- **Inputs into measurement**

  The inputs into the measurement of ECLs include the following variables:

  - **Probability of default (PD):** A series of quantitative and qualitative variables are assessed for each loan and a customer slot calculated. The drivers include customer character, property type and location. The customer slot is converted to a PD using a default curve based on historic performance, management judgement and industry benchmarking.
  - **Loss given default (LGD)** is the magnitude of the likely loss if there is a default. The Bank estimates the LGD parameters based on the history of recovery rates of claims against defaulted counter parties and management experience. The Bank calculates its real estate LGD using the drivers of the loan to value ratio (LTV).

    The LGD is calculated at the current point in time and is then adjusted to reflect forward looking economic indicators with the calculated loss discounted by the assumed selling period. The LGD does not include any impact of indexation.
  - **Expected credit loss (ECL) percentage:** By taking the appropriate PD and LGD, the Bank can calculate an ECL percentage.
  - **Exposure at default (EAD)** represents the expected exposure in the event of a default. The Bank will derive the EAD from the current exposure to the counterparty and any potential changes to the current amount allowed under the contract. The Bank does not have a significant number of undrawn commitments linked to existing customer loan agreements and any new commitments would not be drawn in the event that the Bank considered them likely to cause a default.

During 2021 the Bank's loan portfolio has continued to perform with limited impact of COVID 19 evident in its customers' repayment behaviour. The Bank's management are however aware that there is typically a time lag between macroeconomics impacts, the effectiveness of Government support, and business operating model impacts crystallising. The Bank therefore increased the PDs in its 2021 downside and severe downside scenarios to reflect the continued economic uncertainty. These increases are based on management judgement and impact all stage 1 and stage 2 Real Estate provisions. This change in model assumption replaces the model overlays implemented in 2020.

The Bank's Asset Finance loan loss provision includes a post model adjustment to reflect the immaturity of the CV&S portfolio as well as the concentration of these balances amongst a small number of customers. The CV&S model overlay is less than 2% of the total loan loss provisions at 31 December 2021.

Other ECL model assumptions

The Bank estimates provisions for credit losses at an individual account level for all financial instruments, and for all loans the expected life is based on the contractual maturity.

The Bank has not applied the low credit risk exemption permitted under IFRS9.

Financial assets that are purchased or originated at a deep discount that reflects incurred credit losses, are considered to be purchased or originated credit-impaired ("POCI"). This includes the recognition of a new financial asset following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty that otherwise would not have been considered. Any changes in lifetime expected credit losses since initial recognition of POCI assets are recognised in the income statement until the POCI is derecognised, even if the lifetime expected credit losses are less than the amount of expected credit losses included in the estimated cash flows on initial recognition.

As at 31 December 2021, the Bank does not hold any financial assets that are purchased or originated credit-impaired (2020: None).

Definition of default

The Bank defines default where the loan is in arrears for four or more consecutive payments (i.e. over 90 days), the loan is linked to another account in default, the customer has been declared bankrupt, or the company has been wound up, or a liquidator/administrator appointed. This is aligned to the regulatory definition of default.

Write-off

A write-off is a direct reduction in a financial assets gross carrying value when there is no reasonable expectation of recovering the financial asset in its entirety or a portion thereof. A write off therefore constitutes a derecognition event. The Bank has experienced a total of 20 write offs on its REF portfolio and 12 write offs on its AF portfolio since its inception in 2012. The Bank will write off all or part of the gross carrying amount of a financial asset under the following circumstances:

- Where the underlying collateral of a loan has been sold, with the proceeds having been received by the Bank, and there is no reasonable expectation of recovering the remainder of the outstanding balance due;
- The write off has been approved in line with the Bank's policy; and
- The Bank have explored reasonable avenues of recovering the outstanding loan amount.

The release of provisions and the write-off of any bad debt is subject to appropriate delegated authorities.

Credit risk grades

The Bank allocates each exposure a credit risk grade (slot) using its Credit Grading Model. Each exposure has been allocated a credit risk grade on initial recognition. Credit grades are formally reviewed as a minimum on an annual basis. The grades are reassessed earlier if the customer falls into arrears or contacts the Bank with information that impacts its credit quality.

The table below presents the Bank's loan portfolio split by slot. Each loan account is allocated a slot between 1 and 4, with accounts in default allocated a slot 5.

Lending split by slot as at 31 December 2021	Stage 1 (£m)	Stage 2 (£m)	Stage 3 (£m)	**Total (£m)**
1 – 2	632.9	4.1	–	637.0
3	109.2	56.3	–	165.5
4	16.7	52.9	–	69.6
5	–	–	28.3	28.3
Real Estate Gross loans*	758.8	113.3	28.3	900.4
Asset Finance Gross loan*	89.2	2.7	0.2	92.1

* Includes effective interest rate

The majority of slot 1 to 3 accounts relate to performing loans where the loans are fully up to date and no significant change in credit risk has been identified.

The majority of slot 4 loans are in stage 2 as a result of accounts falling into arrears or other deteriorating credit factors having been identified, and the account placed on the Bank's Credit watch–list.

All slot 5 customers are in stage 3 with the majority categorised as being in default as a result of arrears in excess of 90 days.

The Bank's Asset Finance and Classic Car exposures are allocated a Probability of Default (PD) at origination which is reviewed on a monthly basis. The PD is calculated using Moody's Risk Calc system. The exposures are allocated a IFRS 9 stage depending on the status of the account and the PD. Accounts which have triggered the Bank's SICR (Significant Change In Credit Risk) criteria or are over 30 days in arrears are as a minimum in stage 2. Accounts over 90 days in arrears or are considered unlikely to pay are classified in stage 3.

Provisioning stages

Under IFRS 9 all the Bank's lending exposures are allocated a stage based on the current status of the loan. The Bank has set the following definitions for each of the three stages within IFRS 9:

IFRS9 Stage	Definition	Provisioning Basis	Cure Criteria
Stage 1	– All performing loans which do not feature on the watchlist. – Loans which have no arrears on them.	12m Expected Credit Losses	N/A
Stage 2	– The customer is at least 30 days past due. – The customer is on the Bank's watchlist, save for those accounts which have been added as a result of the death of a customer, and where the death of that customer has not given rise to any significant increase in credit risk as payments continue and are expected to continue to be made. – The underlying loan collateral is located in a particular region or sector as defined by the credit committee. – Any other significant decline in credit quality has been identified by the Bank. – Management specifically place the case in stage 2	Lifetime Expected Credit Losses	Movement back to Stage 1 will only occur where the borrower meets all the following: – Arrears have been fully cleared on the account. – The account has been 'performing' for a period of at least 6 consecutive months. – The account has met all terms of any forbearance measure granted and a period of at least 6 consecutive months has passed since the forbearance ending, and the account has been 'performing' for this period. – The account has been removed from the Bank's watchlist and is not considered to have increased credit risk for internal risk management purposes. – There are no other indicators that suggest credit risk has increased significantly since initial recognition. – There are no other connected accounts which meet the definition of a stage 2 asset.
Stage 3	– The account is over 90 days past due. – The customer has been declared bankrupt. – The company has been wound up or a liquidator/administrator has been appointed. – The account is part of a connected exposure where the borrower meets at least one of the above criteria across any connected account. These criteria can be overridden by management if the account: – Is not guaranteed by other members of the group. – Does not share the same security. – Is a separate legal entity. – Is not deemed to spread contagion to other group members. – The account is in forbearance and that forbearance is considered to be 'significant' (see relevant section below). – Management judgement.	Lifetime Expected Credit Losses	Movement from Stage 3 back to Stage 2 will only occur when the borrower meets all the following: – The account is no longer more than 90 days down. – No connected accounts are more than 90 days down. – The customer has not been more than 90 days down for a consecutive period of 3 months. Where forbearance was extended, all terms of the forbearance agreement were met, and full payments have been made for a consecutive period of at least 3 months. – The Bank are actively seeking resolution and have obtained cooperation from the borrower to work to resolve the arrears. – There are no other indicators of default which would warrant the accounting remaining in stage 3.

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Under IFRS 9 customers may move from a stage 1 provision exposure to a stage 2 exposure as a result of a significant increase in credit risk. To determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition the Bank reviews each account annually, or more regularly, should the customer's payment record show any deterioration.

As a backstop, and as required by IFRS 9, the Bank will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due.

For an account to be 'cured' i.e. evidence a significant reduction in credit risk, and return from stage 2 to stage 1, the customer would need to demonstrate a good track record of payments.

Movement from stage 3 to stage 2 will only occur when the borrower satisfies all the criteria in the table above.

All staging classifications are subject to management review and can be overridden subject to appropriate approval at the Bank's Provision or Credit Committees.

Forbearance

The Bank can implement forbearance agreements for the servicing and management of customers who are in financial difficulty and require some form of concession to be granted, even if this concession entails a loss for the Bank. A concession may be either a modification of the previous terms and conditions of an agreement, which the borrower is considered unable to comply with due to financial difficulties, or a total or partial refinancing of an agreement that would not have been granted had the borrower not been in financial difficulties.

The Bank may modify the contractual terms of a loan for several reasons, including to reflect changing market conditions, or where forbearance (i.e. a renegotiation of the terms of a loan) is granted at the request of a borrower. This modification may have an impact on the IFRS 9 impairment provision stage to which the asset is allocated.

An existing loan whose terms have been modified may require derecognition, and the renegotiated loan recognised as a new loan at fair value, with any adjustments taken through the income statement. Derecognition is assessed using the same '10 percent' test applied to financial liabilities. Where a modification does not result in derecognition, the gross carrying amount of the asset is recalculated as the present value of the modified cash flows, discounted at the financial assets original effective interest rate. Any subsequent modification gain or loss is then recognised in the profit or loss amount.

When the terms of a financial asset are modified, and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparisons of:

- *the remaining lifetime PD at the reporting date based on the modified terms; with*
- *the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.*

Should modification result in a derecognition event, the Bank would make an assessment as to whether the new financial asset is credit impaired at initial recognition.

Forbearance can be temporary or permanent depending on the circumstances, progress on rehabilitation, and the detail of the concession agreed.

Additional forbearance support for customers impacted by COVID-19

The economic conditions resulting from COVID-19 have been unprecedented in terms of the financial support required by customers who found themselves in financial difficulty. The Bank has worked with its customers to support them through this period with partial and full payment holidays provided where appropriate. Customers have typically been given payment holidays for an initial 3-month period, which have then been reassessed where further payment breaks have been requested.

During the payment holiday period, customers interest has continued to accrue, with the revised outstanding balance in the case of Asset Finance agreements being repaid over an extended repayment term, reflecting the length of the payment holiday, or in the case of Real Estate Loans where the loan term is up to 25 years, typically spread over the remaining term leading to slightly higher monthly instalments.

As at the end of 2021, the Bank did not have any customers in forbearance solely as a result of Covid19. Details of the Bank's forborne accounts are set out below.

Forbearance – curing

Loans are classified as forborne at the time a customer in financial difficulty is granted a concession.

The customer will remain treated and recorded as forborne until the following exit conditions are met:

- When all due payments, as per the amended contractual terms, have been made in a timely manner over a continuous repayment period (loan is considered as performing);
- A minimum two-year probation period has passed from the date the forborne exposure was considered as performing;
- None of the customer's exposures are more than 30 days past due at the end of the probation period.

Forbearance analysis

The table below shows the value of forbearance arrangements agreed by the Bank.

31 December 2021	No. of loans		No. of customers (in concession period)	Value of loans (in concession period)
	In concession	Completed concession*		£'000
Asset Finance	–	15	–	–
Real Estate	9	10	6	12,151
Total	**9**	**25**	**6**	**12,151**

* Excludes 2 customers who completed their forbearance concession and within 2 years subsequently been classified as a stage 3 loan.

Forward-looking information

Determining expected credit losses under IFRS 9 requires the incorporation of forward-looking macroeconomic information that is reasonable and supportable. To capture the effect of changes to the economic environment, the calculation of expected credit losses incorporates forward-looking information, and assumptions linked to economic variables that impact losses in each portfolio.

The introduction of macroeconomic information introduces additional volatility to provisions. To calculate forward looking provisions, the Bank sources data from industry leading companies such as Experian and Moody's as well as using its own internal knowledge and industry publications such as the Bank of England Annual Cyclical Scenario (ACS). Management exercises judgement in estimating the future economic conditions which are incorporated into provisions through the modelling of multiple scenarios.

For the Bank's provision calculation four different projected economic scenarios are considered to cover a range of possible outcomes, reflecting upside and downside scenarios relative to the baseline forecast economic conditions.

The economic scenarios are generated to capture a range of possible economic outcomes to facilitate the calculation of unbiased and expected credit losses. The economic variables modelled have been identified as those that have the most significant impact on the Bank's financial statements, and their impact on provisions can be directly assessed.

The Bank's economic scenarios, and the probability weightings assigned to each scenario, are produced by Finance and reviewed and challenged by the Bank's ALCO and Provisions Committees and approved by Audit committee. The current Ukraine crisis and increased economic uncertainty has not changed the Bank's assumptions or scenarios. The Bank's scenarios, their weightings, and individual forecasts are set out in the tables below:

Scenario description:

Scenario	Real Estate Description	Asset Finance Description
1. Base Case	The Bank's base case scenario forecasts moderate growth in property prices over the next 5 years.	The Bank uses Moody's Impairment Studio S0 scenario as its base case. The forecast predicts a pickup in GDP growth, with unemployment and the equity market remaining relatively stable.
2. Downside	The Bank's downside case is a simple average of its severe downside and base case scenarios	This scenario is modelled to assume the pandemic persists, which hinders recovery, leading to higher unemployment rates, and a delay in reaching pre-pandemic GDP levels.
3. Severe Downside	A key input to the Bank's severe downside scenario is the Bank of England's annual cyclical scenario published in January 2021. This is considered to be a severe yet plausible scenario.	This scenario uses the downside case but predicts a much worse outcome. The U.K. is projected to experience further lockdowns as a result of a new variant of COVID. In this scenario, the pandemic leads to the economy experiencing a deep and protracted recession.
4. Upside	The Bank's upside scenario generally assumes no change to the current position in the short term. Over the medium-term however, upside forecasts are assumed to be either no change or a change at least in line with the Bank's base case.	In this scenario the U.K. economy experiences growth following recovery from the pandemic, GDP is assumed to exceed the levels outlined in the base scenario as a result of increased business and public investment spending.

Scenario weighting:

Scenario	Weighting Applied 2021	2020
1. Base Case	45%	45%
2. Downside	30%	30%
3. Severe Downside	12.5%	12.5%
4. Upside	12.5%	12.5%

Macroeconomic variable forecasts:

The Bank uses the following macro-economic forecasts in its scenario modelling. The Bank's Asset Finance scenarios use the GDP, unemployment and equity forecasts, with the Real Estate scenarios applying bank base rate, rental income and property price forecasts

GDP:

Year end change relative to Q4 2021	2022	2023	2024	2025	2026
1 Base Case	3.9%	7.2%	8.4%	9.8%	11.3%
2 Downside	-2.3%	3.3%	5.3%	7.6%	9.1%
3 Severe Downside	-3.9%	1.4%	3.1%	5.4%	7.0%
4 Upside	7.7%	9.6%	10.6%	12.1%	13.4%

Unemployment:

Year end change relative to Q4 2021	2022	2023	2024	2025	2026
1 Base Case	8.8%	1.3%	0.5%	3.1%	4.3%
2 Downside	44.1%	52.7%	52.0%	45.4%	36.6%
3 Severe Downside	66.3%	73.3%	65.0%	62.7%	51.9%
4 Upside	-10.5%	-23.1%	-21.6%	-12.1%	-7.5%

Equity:

Year end change relative to Q4 2021	2022	2023	2024	2025	2026
1 Base Case	-2.2%	-2.0%	-0.4%	3.5%	6.7%
2 Downside	-20.4%	-13.1%	-7.7%	-0.6%	2.4%
3 Severe Downside	-33.5%	-29.7%	-23.1%	-13.5%	-6.4%
4 Upside	7.9%	5.3%	5.0%	5.6%	8.8%

Bank base rate:

Year end change relative to Q4 2021	2022	2023	2024	2025	2026
1 Base Case	0.50%	0.75%	1.00%	1.00%	1.00%
2 Downside	0.75%	1.13%	1.38%	1.38%	1.38%
3 Severe Downside	1.00%	1.50%	1.75%	1.75%	1.75%
4 Upside	0.50%	0.75%	1.00%	1.00%	1.00%

Rental income:

Year end change relative to Q4 2021	2022	2023	2024	2025	2026
1 Base Case	1.5%	3.4%	5.4%	7.3%	9.2%
2 Downside	-9.3%	-8.3%	-7.3%	-6.3%	-5.4%
3 Severe Downside	-20.0%	-20.0%	-20.0%	-20.0%	-20.0%
4 Upside	1.5%	3.4%	5.4%	7.3%	9.2%

Commercial property prices:

Year end change relative to Q4 2021	2022	2023	2024	2025	2026
1 Base Case	6.3%	9.1%	11.2%	13.0%	14.6%
2 Downside	-12.5%	-4.7%	-1.4%	1.7%	4.1%
3 Severe Downside	-31.3%	-18.5%	-14.0%	-9.6%	-6.3%
4 Upside	6.3%	9.1%	11.2%	13.0%	14.6%

Residential property prices:

Year end change relative to Q4 2021	2022	2023	2024	2025	2026
1 Base Case	4.8%	6.2%	9.1%	13.1%	17.2%
2 Downside	-10.6%	-10.3%	-0.7%	4.8%	9.0%
3 Severe Downside	-25.9%	-26.9%	-10.6%	-3.6%	0.8%
4 Upside	4.8%	6.2%	9.1%	13.1%	17.2%

Sensitivities

The expected credit loss provision is sensitive to judgement and estimations made with regard to the selection and weighting of multiple macroeconomic scenarios. As a result, management has assessed and considered the sensitivity of the provision as follows:

1. The tables below show the Real Estate and Asset Finance ECL assuming each scenario has been 100% weighted to show the impact of alternative scenarios.

- **Real Estate**

Scenario	Current weighted Scenario ECL £'000	100% weighting ECL £'000
1. Base Case	13,836	11,609
2. Downside		15,029
3. Severe Downside		21,839
4. Upside		10,990

- **Asset Finance**

Scenario	Current weighted Scenario ECL £'000	100% weighting ECL £'000
1. Base Case	930	820
2. Downside		1,067
3. Severe Downside		1,148
4. Upside		781

2. The table below shows the impact of changes to the impairment assumptions in the IFRS 9 models.

Scenario	Provision impact £'000
Residential house price increases by 20% more than the base case. Commercial property prices increase by 20% more than the base case	(107)
A reduction from 40% to 35% in the Bank's forced sale discount	(1,503)
A reduction of from 35% to 30% in the assumed Cure rate	559
A 12 months reduction in the assumed time to sell defaulted properties	(946)
A 10% increase in the Bank's Asset Finance LGD	35

The expected credit loss (ECL) on loans in stage 3 are estimated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows across a range of economic scenarios are taken into account. These considerations can be particularly subjective and can include the business prospects for the customer, the realisable value of collateral, the reliability of customer information and the likely cost and duration of the work-out process. The level of the impairment allowance is the difference between the value of the discounted expected future cash flows (discounted at the loan's original effective interest rate), and its carrying amount. Furthermore, judgements change with time as new information becomes available or as work-out strategies evolve, resulting in frequent revisions to the impairment allowance as individual decisions are taken. Changes in these estimates would result in a change in the allowances and have a direct impact on the impairment charge

- **Credit risk**
  – loans and advances to banks and debt securities

Credit risk exists in respect of Loans and Advances to Banks and Debt securities where the Bank has acquired securities or placed cash deposits with other financial institutions. No assets are held for speculative purposes or actively traded. Certain liquid assets are held as part of the Bank's liquidity buffer.

The Bank holds balances in its Bank of England reserve account, along with a nostro accounts held with National Westminster Bank. The counterparties to which the Bank is exposed are domestically and globally systemic banks, and as such the Bank considers that the risk of default across these balances is extremely low.

The Bank's debt securities are currently issued by the European Investment Bank (£17m) and the International Bank Reconstruction & Development (£20m). The Bank considers that the loans and advances to Banks and the debt securities are of low credit risk and as such provide for a 12-month ECL, consistent with the assets being classified in stage 1.

The Bank monitors its exposures to all counterparties on an ongoing basis and whether there have been any changes in the credit rating which may cause an increase in the probability of said counterparty default. As at 31 December 2021 the Bank held no provisions against loans and advances to banks given the low credit risk of these financial instruments, their high propensity to meet contractual cash flow obligations as they fall due, and the instant access terms of these balances.

The table below sets out the credit quality of the Bank's on-balance sheet loans and advances to Bank's, debt securities and derivative assets. Full details on the Bank's derivative instruments can be found in Note 21.

£'000	2021	Credit rating	2020	Credit rating
Cash and balances at central banks	240,158	P1/Aa3	190,962	P1/Aa3
Deposits at other banks	12,293	P1/A1	9,687	P1/A1
European Investment Bank Bond	17,184	P1/Aaa	17,770	P1/Aaa
International Bank Reconstruction and Development Bonds	19,953	P1/Aaa	20,274	P1/Aaa
Derivatives held for risk management purposes	(253)	P1/A2	9	P2/A3

The Bank's loans and advances to banks and debt securities credit risk is managed through a series of policies and procedures including:

- Cash placements – Credit risk of counterparties is controlled through the counterparty placements policy, which limits the maximum exposure by entity where the Bank can place cash deposits.
- Debt securities – As part of the Bank's liquidity buffer, it holds a portfolio of debt securities. The Bank's internal Asset and Liability Management Policy sets limits on the value and type of exposures within which the Bank's Treasury function operate.
- Derivatives – Credit risk on derivatives is controlled through a policy of only entering into contracts with a limited number of UK credit institutions, with a credit rating of at least BAA (using Moody's long-term rating) at inception.

- **Liquidity risk**

Liquidity risk is the risk of being unable to fund assets and meet obligations as they fall due without incurring unacceptable losses.

The Bank's Board of Directors sets the Bank's strategy for managing liquidity risk and delegates responsibility for oversight of the implementation of this policy to the Assets & Liabilities Committee (ALCO). ALCO manages the Bank's liquidity policies and procedures mandated by the Board's Risk & Compliance Committee. The Bank's liquidity position is monitored on a day-to-day basis and a summary report, including any exceptions and remedial action taken, is provided to management daily.

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have Sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses, or risking damage to the Bank's reputation.

The Bank maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained.

Regular liquidity stress testing is conducted across a variety of scenarios covering both normal and more severe market conditions. The scenarios are developed taking into account both Bank-specific events (e.g. a negative media comment) and market-related events (e.g. prolonged market illiquidity, reduced fundability of currencies, natural disasters or other catastrophes).

The Bank's key liquidity risk management drivers include the following items:

- Deposit funding risk

  The deposit funding risk is the primary liquidity risk driver for the Bank. This could occur if there was a concern by depositors over the current or future credit worthiness of the Bank. The Bank mitigates this risk with a high proportion of its deposits being protected by the UK Government's Financial Services Compensation Scheme (FSCS) and by having a diversified mix of deposit accounts with varying maturity profiles.

- Pipeline loan commitments

  The Bank needs to maintain liquidity to cover the outstanding pipeline of loan offers. Although certain pipeline offers may not be legally binding, the failure to adhere to an expression of intent to finance a loan brings reputation risk, therefore liquidity is held for such pipeline offers.

- Contingency funding plan

  The Bank is required to maintain a Resolution, Recovery and Liquidity Funding Contingency Plan documents by its Regulator, the PRA. The plans involve a two-stage process, covering preventive measures and corrective measures to be invoked when a potential or actual risk to the Bank's liquidity or capital position arises from either an internal or external event. The plans set out what actions the Bank would take to ensure it complies with the liquidity adequacy rules and operate within its risk appetite and limits set by the Board.

- Sterling Monetary Framework facilities

  The Bank is a participant in the Bank of England's Sterling Monetary Framework facilities. In 2021 the Bank repaid the £57m of Treasury bills drawn under the Funding for Lending Scheme (FLS). The Bank has also drawn £78m of funding in the form of cash under the Bank of England's TFSME scheme (Term Funding Scheme with additional incentives for SME) in 2021.

  The Bank continues to pre-position eligible loan collateral with the Bank of England to enable it to access, if required, the Bank of England's Sterling Monetary Framework facilities, including the Discount Window Facility (DWF).

The Bank monitors its liquidity risk using several metrics including the liquidity coverage ratio (LCR), its loan to deposits ratio (LDR) and an internal survival days metric. The Bank's LCR at 31 December 2021 was 287% (2020: 419%) and the LDR was 95% (2020: 90%).

The table below analyses the Bank's contractual financial assets and liabilities. Customer deposits include any accrued interest as at 31 December. The contractual date is the earliest repayment date of the deposits.

Contractual maturity analysis at 31 December 2021 £'000	Due within one year	Due after more than one year	No contractual maturity	Total
Assets				
Cash and balances at central banks	240,158	–	–	240,158
Loans and advances to banks	12,293	–	–	12,293
Debt Securities	–	37,137	–	37,137
Loans and advances to customers	100,830	877,004	–	977,834
Other assets	–	–	7,449	7,449
Total Assets	**353,281**	**914,141**	**7,449**	**1,274,871**
Liabilities				
Customers' accounts	878,320	147,200	–	1,025,520
Central Bank facilities (TFSME)	–	78,000	–	78,000
Lease liabilities	–	2,056	–	2,056
Derivative financial assets	–	254	–	254
Other liabilities	–	–	5,224	5,224
Total Liabilities	**878,320**	**227,510**	**5,224**	**1,111,054**

Contractual maturity analysis at 31 December 2020 £'000	Due within one year	Due after more than one year	No contractual maturity	Total
Assets				
Cash and balances at central banks	190,962	–	–	190,962
Loans and advances to banks	9,687	–	–	9,687
Debt Securities	–	38,044	–	38,044
Loans and advances to customers	98,286	730,094	–	828,380
Derivative financial assets	–	9	–	9
Current tax asset	522	–	–	522
Other assets	–	–	6,657	6,657
Total Assets	**299,457**	**768,147**	**6,657**	**1,074,261**
Liabilities				
Customers' accounts	823,297	93,918	–	917,215
Lease liabilities	147	2,055	–	2,202
Other liabilities	–	–	4,709	4,709
Total Liabilities	**823,444**	**95,973**	**4,709**	**924,126**

The table below analyses the Bank's contractual financial liabilities including any accrued interest up to the point of maturity as at 31 December. The contractual date is the earliest repayment date of the deposits.

Contractual maturity analysis at 31 December 2021 £'000	Due within one year	Due after more than one year	No contractual maturity	Total
Customers' accounts	880,586	153,039	–	1,033,625
Central Bank facilities (TFSME)	–	79,371	–	79,371
Lease liabilities	104	1,952	–	2,056
Derivative financial liabilities	–	254	–	254
Other liabilities	–	–	5,224	5,224
Total Liabilities	**880,690**	**234,616**	**5,224**	**1,120,530**

Contractual maturity analysis at 31 December 2021 £'000	Due within one year	Due after more than one year	No contractual maturity	Total
Deposits	826,252	98,397	–	924,649
Lease liabilities	147	2,055	–	2,202
Other liabilities	–	–	4,709	4,709
Total Liabilities	**826,399**	**100,452**	**4,709**	**931,560**

The following table sets outs the Bank's liquid assets:

£'000	2021	2020
Balances with Central banks	240,158	190,962
Loans and advances to banks	12,293	9,687
Debt securities	37,137	38,044
Total	**289,588**	**238,693**

The following table sets outs the Bank's off-balance sheet assets:

£'000	2021	2020
Funding for Lending Scheme Treasury Bills	–	57,000
Total	**–**	**57,000**

– Asset encumbrance

The Bank's assets can be used to support collateral requirements for central bank operations, or third party repurchase transactions. Assets that have been set aside for such purposes are classified as 'encumbered assets' and cannot be used for other purposes. All other assets are defined as 'unencumbered assets'. These assets are readily available to secure funding or meet collateral requirements and are not subject to any restrictions.

During 2021 the Bank repaid the £57m of Treasury Bills drawn under the Funding for Lending Scheme (FLS). The Bank drew £78m of funding in cash under the Bank of England's TFSME scheme (Term Funding Scheme with additional incentives for SME) in 2021. The Bank has a total of £188m (2020: £122m) of loans and debt securities which are available as collateral to support drawings under the Bank of England's Sterling Monetary Framework (SMF) facilities.

- **Market risk**

Market risk is the risk that changes in market rates negatively impact the earnings or market value of the Bank's assets or liabilities. All the Bank's exposure to market risk relates to non-trading portfolios.

As at 31 December 2021, the Bank does not have any customer accounts or derivatives where the interest rate is set or linked to LIBOR.

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates.

Interest rate risk

Interest rate risk is the risk of loss arising from adverse movements in market interest rates. Interest rate risk

is the main market risk faced by the Bank, and primarily arises from loans and deposits to customers, liquidity holdings and debt securities. Oversight of interest rate risk is monitored by ALCO monthly and is managed through the use of appropriate financial instruments, including derivatives, with established risk limits, reporting lines, mandates and other control procedures in place.

Interest rate risk consists of asset-liability gap risk and basis risk.

– Asset-liability gap risk

Where possible the Bank seeks to match the interest rate structure of assets with liabilities, creating a natural hedge. Where this is not possible the Bank will enter into interest rate swap transactions to convert the fixed rate exposures on loans and advances, customer deposits and debt securities into variable rate exposures.

– Basis risk

Basis risk is the risk of loss arising from changes in the relationship between interest rates, which have similar, although not identical, characteristics. This risk is managed by matching and, where appropriate, through the use of derivatives with established risk limits and other control procedures.

The Bank's forecasts and plans take account of the risk of interest rate changes and are prepared and stressed in line with PRA guidance. The following table summarises the re-pricing periods for the Bank's assets and liabilities. Items are allocated to time bands by reference to the earlier of the next contractual interest rate change and the maturity date. The interest rate sensitivity exposure of the Bank at 31 December 2021 was:

31 December 2021 £'000	Within 3 months	More than 3 but less than 6 months	More than 6 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non-Interest Bearing	Total
Assets							
Cash and balances at central banks	240,158	–	–	–	–	–	240,158
Loans and advances to:							
Banks	12,293	–	–	–	–	–	12,293
Customers	904,921	9,551	15,054	59,898	4,335	(15,925)	977,834
Debt Securities	–	–	10,210	26,958	–	(31)	37,137
Other	–	–	–	–	–	7,449	7,449
Total Assets	**1,157,372**	**9,551**	**25,264**	**86,856**	**4,335**	**(8,507)**	**1,274,871**
Off balance sheet derivatives	12,000	–	–	9,000	–	–	21,000
Liabilities							
Customers' accounts	(792,286)	(52,903)	(108,183)	(146,374)	–	(4,027)	(1,103,773)
Other liabilities	–	–	–	–	–	(7,281)	(7,281)
Total Equity	(22,900)	–	–	–	–	(140,917)	(163,817)
Total liabilities	**(815,186)**	**(52,903)**	**(108,183)**	**(146,374)**	**–**	**(152,225)**	**(1,274,871)**
Off balance sheet derivatives	(21,000)	–	–	–	–	–	(21,000)
Interest Rate Sensitivity Gap	**333,186**	**(43,352)**	**(82,919)**	**(50,518)**	**4,335**	**(160,732)**	**–**
Cumulative Gap	**333,186**	**289,834**	**206,915**	**156,397**	**160,732**	**–**	**–**

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The interest rate sensitivity exposure of the Bank at 31 December 2020 was:

31 December 2020 £'000	Within 3 months	More than 3 but less than 6 months	More than 6 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non-Interest Bearing	Total
Assets							
Cash and balances at central banks	190,962	–	–	–	–	–	190,962
Loans and advances to:							
Banks	9,687	–	–	–	–	–	9,687
Customers	770,854	6,585	16,287	43,552	4,366	(13,264)	828,380
Debt Securities	–	–	7,263	30,781	–	–	38,044
Other	–	–	–	–	–	7,188	7,188
Total Assets	**971,503**	**6,585**	**23,550**	**74,333**	**4,366**	**(6,076)**	**1,074,261**
Off balance sheet derivatives	–	–	11,000	12,000	–	–	23,000
Liabilities							
Customers' accounts	(616,092)	(63,313)	(139,957)	(93,095)	–	(4,758)	(917,215)
Other liabilities	–	–	–	–	–	(6,911)	(6,911)
Total Equity	–	(22,900)	–	–	–	(127,235)	(150,135)
Total liabilities	**(616,092)**	**(86,213)**	**(139,957)**	**(93,095)**	**–**	**(138,904)**	**(1,074,261)**
Off balance sheet derivatives	(23,000)	–	–	–	–	–	(23,000)
Interest Rate Gap	**332,411**	**(79,628)**	**(115,407)**	**(6,762)**	**4,366**	**(144,980)**	**–**
Cumulative Gap	**332,411**	**252,783**	**147,376**	**140,614**	**144,980**	**–**	**–**

Sensitivity analysis

The Bank considers a 200 basis points (bps) movement to be appropriate for scenario testing given the current economic outlook and industry expectations.

The Bank estimates that a +/-200bps movement in interest rates paid/received would have impacted the overall balance sheet values as follows:

+200bps: -£2.3m (2020: -£1.6m)

-200 bps: £2.4m (2020: £1.7m)

This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

– Foreign currency risk

  The Bank has no deposit accounts denominated in € or $ and is not exposed to any foreign currency risk.

– Equity price risk

  The Bank does not undertake any equity investments and therefore is not exposed to equity market risk.

- **Operational risk**

Operational risk is the risk of direct or indirect loss arising from inadequate or failed internal processes, people and systems or from external events that cause regulatory censure, reputational damage, financial loss, service disruption and/or customer detriment.

The Bank's objective is to manage operational risk to balance the avoidance of financial losses or damage to the Bank's reputation with overall cost effectiveness and innovation. In all cases, Bank policy requires compliance with all applicable legal and regulatory requirements.

The Board of Directors has delegated responsibility for operational risk to the Risk & Compliance Committee, which is responsible for the oversight of the management of the full range of operational risks the Bank faces, including:

– People
– Fraud
– Execution, delivery and process management
– Information security and management
– Technology and cyber security
– Model risk
– Supplier risk
– Change management/execution
– Employment practices and workplace safety
– Conduct
– Operational resilience
– Environmental risk

The Bank uses various tools to monitor its exposure to operational risk, including Risk and Control Self Assessments, monitoring of operational risk events, scenario analysis and the use of key risk indicators.

- **Capital Management**

The Bank manages its capital under the Capital Requirements Regulation (CRR) and Capital Requirements Directive (together referred to as CRD IV) framework. The framework is enforced in the UK by the Prudential Regulation Authority (PRA) who sets and monitors capital requirements for the Bank.

The Bank's policy is to maintain a strong capital base, to maintain investor and market confidence, and to sustain the future development of the business. The Board manages its capital levels for both current and future activities, and documents its risk appetite, and capital requirements during stress scenarios as part of the Bank's Internal Capital Adequacy Assessment Process (ICAAP).

The ICAAP represents the Board's risk assessment for the Bank, and it is used by the Board, management, and shareholders to understand the levels of capital required to be held over the short and medium term, and to assess the resilience of the Bank against failure. The Bank submitted its last ICAAP to the PRA in Q3 2021. The Bank presents regular reports on the current and forecast level of capital to the Executive Committee, ALCO, Risk & Compliance Committee, and Board. The key assumptions and risk drivers used to create the ICAAP are regularly monitored and reported, and any material deviation from the forecast and risk profile of the Bank would require the ICAAP to be reviewed.

The Bank's Total Capital Requirement (TCR) is set by its Regulator, the PRA. The Bank's TCR was 11.1% of Risk Weighted Assets (RWA) at 31 December 2021. The Bank's regulatory capital at 31 December 2021 totalled £167.5m (2020: £153.2m), (after IFRS 9 transitional relief). In addition to the TCR requirement the Bank is required to hold additional capital buffers, referred to as Pillar 2B, which includes the Counter Cyclical Buffer and the Capital Conservation Buffer. The Capital Conservation Buffer remained at 2.5% of RWA and the Counter Cyclical Buffer remained at 0% of RWA during 2021. The FPC announced in December 2021, that the UK Counter Cyclical Buffer (CCyB) would increase to 1%. This rate will come into effect from 13 December 2022 in line with the usual 12-month implementation period. The Committee also announced that if the UK economic recovery proceeds broadly in line with the MPC's central projections in the November Monetary Policy Report and absent a material change in the outlook for UK financial stability, the FPC would expect to increase the rate further to 2% in 2022 Q2. This subsequent increase would be expected to take effect after the usual 12-month implementation period.

As at 31 December 2021, the Bank's regulatory capital consists entirely of Tier 1 capital which includes ordinary share capital, convertible loan notes, retained earnings, reserves, and deductions for intangible assets. The Bank's intangible asset deduction as at 31 December 2021 reflects the revised European Banking Authority regulatory treatment that came into force in December 2020. Under these regulations the positive difference between the prudential and the accounting accumulated amortisation is fully deducted from CET1 (Common Equity Tier 1) capital, while the residual portion of the carrying amount of software is risk weighted. The majority of the Bank's intangible assets are amortised over the prudential period of 3 years and therefore the majority of the Bank's intangible assets are risk weighted.

– Impact of IFRS 9 on capital planning

  The Bank elected to adopt the phased IFRS 9 transitional relief approach from 1 January 2018. Under the transition guidelines, the financial impact of the increase in provision balances on CET 1 regulatory capital is phased in over 5 years, with 50% of the increase in requirements being excluded in 2021 (70% in 2020) and 25% in 2022.

In June 2020, as part of the economic support initiatives implemented as a result of the COVID-19 pandemic, the CRR 'Quick Fix' package announced measures that enable banks to reduce the impact on Tier 1 capital from increased expected credit losses in 2020 and 2021. The Bank elected to adopt the new transitional relief and informed its Regulator of this decision. The additional relief allows the impact of increased expected loss provision balances in stage 1 and stage 2 cases in 2020 and 2021 on CET 1 regulatory capital, to be phased in over 5 years. 100% of the increase can be added back to CET1 capital in 2020 and 2021, reducing to 75% in 2022, 50% in 2023, and 25% in 2024.

The Bank's capital requirement is calculated based on the gross exposures net of specific provisions. The tables below set out the Bank's capital resources at 31 December and reconciles these resources to the Bank's reported regulatory capital.

£'000	**31 December 2021**	31 December 2020
Tier 1		
Ordinary share capital	44,955	44,955
Perpetual subordinated contingent convertible loan notes	22,900	22,900
Retained earnings	96,437	82,254
FVOCI reserve	(475)	26
Deductions: Intangible assets	(163)	(83)
Other deductions*	(1,726)	(1,688)
Total Tier 1 capital	161,928	148,364
Total regulatory capital before IFRS9 transitional relief**	**161,928**	**148,364**
IFRS9 transitional relief	5,627	4,799
Total regulatory capital after IFRS9 transitional relief	**167,555**	**153,163**
Equity as per statement of financial position	163,817	150,135
Regulatory adjustments:		
Less intangible assets	(201)	(83)
First loss tranche on BBB Enable Guarantee	(1,688)	(1,688)
Total regulatory capital before IFRS9 transitional relief**	**161,928**	**148,364**
IFRS9 transitional relief	5,627	4,799
Total regulatory capital after IFRS9 transitional relief	**167,555**	**153,163**

	31 December 2021		31 December 2020	
	Before transitional relief	After transitional relief	Before transitional relief	After transitional relief
Risk weighted assets (RWA)	723,352	728,379	625,673	629,727
Common Equity Tier 1 ratio (CET1)	19.2%	19.9%	20.1%	20.7%
Tier 1 capital ratio	22.4%	23.0%	23.7%	24.3%
Total capital ratio	22.4%	23.0%	23.7%	24.3%

* Other deductions from Common Equity Tier 1 Capital includes the first loss element of the British Business Bank's Enable Guarantee that became effective in 2019 and the Bank's prudential valuation adjustment. The Enable Guarantee provided the Bank with a facility to guarantee up to £50m of commercial loans. The guarantee, which for regulatory reporting purposes is treated as a synthetic securitisation enables the Bank to risk weight the loans within the guarantee at 0%. The reduction in capital requirements as a result of the lower risk-weighting is partially offset by a requirement to hold capital to cover the first £1.688m of losses arising from the loans within the guarantee. The £1,688k is referred to as the Bank's first loss element.

** After applying the transitional factors to both the original and CRR Quick FIX relief values

29 Leases

The Bank applies IFRS 16 in calculating a value for the lease, and lease liability, for its long-term property and computer printer leases. The value is calculated as the present value of the remaining lease payments discounted at the Bank's incremental borrowing rate. These right-of-use assets have been measured at an amount equal to the lease liabilities, adjusted by the amount of any pre-paid or accrued lease payments.

Right of use asset (£'000)	Property	Computer Hardware – Printers	**Total**
Balance at 1 January 2021	1,955	86	2,041
Lease additions/ modifications/ disposals	–	–	–
Depreciation charged to P&L	(194)	(24)	(218)
Balance at 31 December 2021	**1,761**	**62**	**1,823**

Lease liability (£'000)	Property	Computer Hardware – Printer	**Total**
Balance at 1 January 2021	2,116	86	2,202
Lease additions/ modifications/ disposals	–	–	–
Interest charged to P&L	127	5	132
Lease payments	(250)	(28)	(278)
Balance at 31 December 2021	**1,993**	**63**	**2,056**

The Bank has not recognised right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application – namely its Sheffield and Bristol regional offices. The short-term nature of these leases provides the Bank with the flexibility to move premises as business needs change. The Sheffield and Bristol offices are located in major UK cities and alternative premises are readily available should the Bank require larger or smaller offices. Whilst the leases include renewal options, the renewal is not certain and therefore no value for the lease is recorded within the Bank's property, plant, and equipment balance sheet category. During the year, the expense incurred on all the Bank's short term property leases was £79k (£67k). The Bank is expected to make payments totalling £38k in respect of the Sheffield and Bristol leases in 2022. These payments are recorded as an operating expense in the income statement.

The Bank has considered whether any of its leases contain any onerous clauses. Management have concluded that they do not, and that the whilst the Head Office had limited use during the onset of the Pandemic, the Bank has started to return to the office during 2021 as working from home guidance and social distancing restrictions were relaxed.

The maturity profile of the Bank's lease liabilities is shown in the table below:

£'000	**2021**	2020
Less than one year	228	278
Between one and five years	905	937
More than five years	1,843	2,050
Total	**2,976**	**3,265**

30 Commitments

At 31 December 2021, the Bank had undrawn credit line commitments of £111.5m (2020: £68.8m) and capital commitments of £nil (2020: £nil).

At 31 December 2021, the Bank had contingent liabilities of £nil (2020: £0.3m).

31 Related parties

Related parties of the Bank include key management personnel and entities that have a significant voting power. The following transactions with related parties are included in the income statement for the period.

Transactions with Controlling parties

£'000	**2021**	2020
Cambridgeshire County Council		
Sums paid in respect of Directors' services	53	52
Interest payments on perpetual subordinated contingent convertible loan notes	1,283	1,440
Trinity Hall, Cambridge		
Interest on 31-day business notice account	1	1

Trinity Hall currently holds a 31-day business notice account with the Bank. The account balance at 31 December 2021 was £95k (2020: £94k). The account earns interest at the standard rate for this type of account..

Key management personnel compensation

The key management personnel of the company comprised the executive and non-executive directors of the Bank. The compensation of key management personnel is shown in the following table (see also Note 11).

£'000	2021	2020
Directors' remuneration*	2,202	2,360
Amounts receivable under long term incentive schemes	50	–
Company contributions to defined contribution pension plans	–	1
Provision / Payments of compensation for loss of office	–	109
Amounts paid to third parties in respect of Directors' services	53	52
Total	**2,305**	**2,522**

* Emoluments of the highest paid director were £596k (2020: £524k).

Transactions with key management personnel:

The amounts paid to third parties in respect of director's services relate to the non-executive director fees for Richard Perry in 2021 and 2020. These amounts were paid to Cambridgeshire County Council for 2020 and January to April 2021 and Cambridgeshire Local Government Pension Fund for the period from May 2021 to December 2021.

Caroline Fawcett, an Independent Non-Executive Director, is the Director of a company which had £48k (2020: £87k) on deposit at the end of the year. The account earns interest at the standard rate for this type of account.

Mike Hudson, an Executive Director, is a trustee of a not-for profit organisation that had £81k (2020: £76k) on deposit at the end of the year. The account earns interest at the standard rate for this type of account.

There were no other transactions with key management personnel in 2021 (2020: nil).

There were no loans outstanding to any directors at 31 December 2021 (2020: nil)

32 Ultimate parent company

The legal title to the ordinary share capital of the company is held equally by:

- Cambridgeshire County Council as Administering Authority of the Cambridgeshire Local Government Pension Fund; and
- The Master or Keeper, Fellows and Scholars of the Hall of the Holy Trinity in the University of Cambridge (commonly called Trinity Hall, Cambridge).

33 Subsequent events

There have been no significant quantifiable events between 31 December 2021 and the date of approval of the financial statements which would require a change to, or additional disclosure, in the financial statements. The COVID-19 pandemic and the Ukrainian conflict continue to create an uncertain economic outlook across the UK and globally. Management and the Board continue to monitor the situation and evaluate the impact on the Bank on a regular basis.

34 Standards issued but not yet adopted

A number of new revised standards issued by the International Standards Board have not yet come into effect. None of these are expected to have a material impact on the Bank's financial statements.

35 Country by country reporting

The regulations under Article 89 of the CRD IV require the Bank to disclose the following information about the source of the Bank's income and the location of its operations:

Requirement	Disclosure
Name, nature of activities and geographical location	Cambridge & Counties Bank operates as a single entity exclusively in the United Kingdom. The principal activities of the Bank can be found in Note 1.
Average number of employees	As disclosed in Note 10 to the accounts.
Annual turnover and profit before tax	As disclosed in the Statement of Profit or Loss and Other Comprehensive Income on page 86.
Corporation tax paid	As noted in the Statement of Cash Flow on page 89.
Public subsidies	There were none received in the current or prior year.

Contact Details
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